CREDIT and FINANCIAL MANAGEMENT

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INFLATION—DEBTS—CREDITS

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First Principles

In Credit Service

No. 2

Here is a problem presented by the credit executive of a large manufacturing company.

The products of his company are sold direct to retail stores and outlets as follows:

- AUTO SUPPLIES
- BAKERS' SUPPLIES
- BEAUTY PARLOR SUPPLIES
- BUILDING CONTRACTORS
- DEPARTMENT STORES
- DRUGS
- DRY GOODS
- ELECTRICAL EQUIPMENT
- FURNITURE
- HARDWARE
- RADIO AND MUSIC
- RESTAURANT SUPPLIES
- SPORTING GOODS

His sales are in substantial amounts, frequently running into thousands of dollars. Therefore, he is an important creditor of most of his customers.

If you sell one or more of the above classifications of business, it is altogether likely that on his ledgers you will find the names of some of your customers who owe him hundreds or even thousands of dollars. Some of them are as troublesome to him as they are to you. He wants you to have his experience with those customers—and he would like to have yours. He knows that without your experience he hasn't the complete facts on his customers. And unless you have *his* experience, *you* haven't the complete facts.

Within the week he has been invited to exchange information through five trade associations, but he says if he attempts to work with you through groups or trade associations he must join several of them, thus duplicating work and expense. And if you sell more than one class of accounts, or your customers buy more than one class of goods, you are faced with the same problem.

He says it requires too much time to answer all the direct inquiries he receives. Therefore, he has elected to answer none of them.

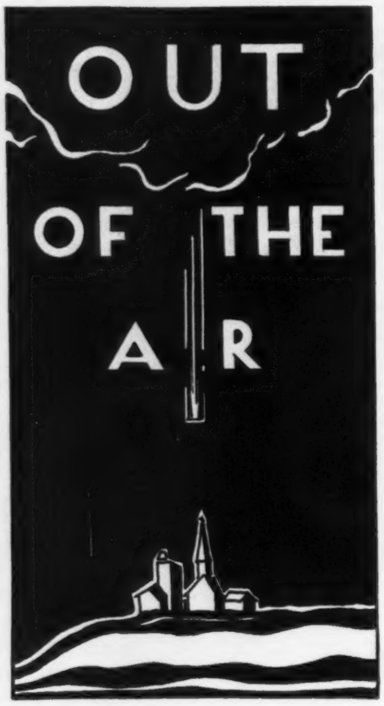
Even though he does not believe these methods of exchanging information with you are practical, he, nevertheless, believes that exchange should be handled by and through a member owned and controlled, non-profit making organization.

In his efforts to work with you, he has subscribed to Credit Interchange Service, filed a complete list of his customers with his Bureau, and answers every request for information originating with the Bureau. He says that regardless of your line of business you can get his experience by calling on your local Credit Interchange Bureau, and if, like him, you sell several lines, you, too, can cover all of them through your Credit Interchange Bureau.

This is the only effective, economical and practical way of exchanging experience with him!

Credit Interchange Bureaus

National Association of Credit Men



THAT'S THE WAY
disasters come

Often they take the form of windstorm, fire, explosion, or riot and civil commotion. You may be prepared for the losses that accompany these hazards and if you are, you can probably thank some insurance agent. Our agents are equipped to maintain an interest in their customers' welfare and in addition to sound indemnity can offer insurance counsel, engineering advice and the personal services of field representatives.

THE PHOENIX INSURANCE CO.

OF HARTFORD, CONN.

CONTENTS FOR MAY, 1933

Looking ahead

Full details of the National Association of Credit Men's 38th. Annual Convention and the Third Credit Congress of Industry at Milwaukee, Wisconsin, from June 19 to 23, will be presented in our June issue. Another in the series of articles analyzing and explaining the Credit Interchange system by Roy A. Colliton will also appear in that number. A legal reserve to aid industry in times of stress will be advocated by Richard W. Lambert.

Our cover

Inflation's shadow has grown rapidly. Last month it was a theme for demagogues; this month it is a national policy. The growth of the idea is picturized on our cover in a camera-study by Paul Haase from the Old Master's Studio, N. Y.

CREDIT and FINANCIAL MANAGEMENT

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Postal Telegraph

Spring tonic

Our people feel that there are many evidences indicating the end of our long, economic winter. At the first signs of clearing skies came the question, in a hundred different ways, "Why not a spring tonic to stimulate the sluggish circulatory system of our economic body?" And in answer thousands of "I's" came forward with thousands of "ayes". Yes, give the patient a spring tonic—give Uncle Sam inflation, give it to him this way, that way, any way—just so it's inflation.

In the entire history of our country inflation has never been so staunchly supported as it is today. Outside of a few stubborn, Gibraltar minds almost everyone seems to agree that some form of inflation is needed. And even these minds agree with the others that some form of inflation is coming. Millions of words have appeared in newspapers, periodicals and books about inflation so it would be futile to attempt in this editorial any comprehensive discussion.

There is one red thread of danger running through the texture of our inflation literature, speeches and programs that must be challenged vigorously. There isn't a single atom of evidence to prove that an inflation tonic will act any differently on our economic body today than it has acted on the economic body of this country and other countries in the past. Our real danger doesn't lie so much in inflation itself as it does in the refusal to be guided by historical evidence and perspective. No less an authority than Professor Moley, one of the president's economic advisers, when speaking of an inflation and recuperative program said, "We cannot go back into history for aid and direction, either in knowing how to meet it or to appraise its seriousness. I am an academic man, but I do not believe in a dependence at this time upon historical analogies or theoretical solutions for this depression". Professor Moley is not alone in this attitude. The same disregard for the past has been expressed by many of our leading legislators and officials who are charged with the responsibility of devising and instituting an inflation program.

None of us believe in theoretical solutions—that is exactly why historical analogies should be considered gravely and carefully. The world's experience with inflation in the past is a red danger light telling us when to stop or how far it is safe to go. Inflation, as discussed in this analysis, means monetary and currency inflation rather than credit inflation although the two are definitely linked in many ways. In the past two weeks I have made a study of historical inflation experiences from the time Licinius made a heavy money issue in Rome in 376 B.C. down to the present time. From 1770 to 1820 the world went through a wild half century of inflation experiences of all types and kinds. All the inflation programs our country has embarked upon have been studied with special attention given to the varying conditions in the different economic periods. A study of this kind will prove to anyone that the fundamental and basic principles of inflation are the same today as they were back through the centuries to the time of Licinius. The only difference today is that our problem is more magnitudinous and complex. And that clearly calls for inflation that is more magnitudinous and complex, which in turn demands an economic stewardship that will use historical precedents for brakes upon the fast gathering momentum of any inflationary program.

If our leaders break faith with the past we cannot repose any faith in the future. Inflation simply means a manipulation that decreases the value of money and increases the price of goods without any reference to the supply of goods and services. It is nothing more than a hypodermic to bring about an artificial increase in purchasing power. An overdose or too many hypodermics will be disastrous. Every past experience proves that and there isn't any evidence to demonstrate the same thing would not happen today.

Inflation has always carried with it an economic stigma. In its first stages it has generally brought about beneficial results but the trouble has been to stop inflation at the right point. There are certain basic facts about inflation that cannot be disregarded. The past writes the future clearly. Fundamentally, inflation is intended to bring an increase in prices. But the unmistakable fallacy of decreasing the value of the dollar lies in the fact that the real problem is to speed up the velocity of money rather than issue more money than is needed. Virtually every inflation program has missed this all important factor.

We have today many proponents of bimetallism. We are harking back to the days of Bryan and his platform of "16 to 1". But we must brush aside all arguments dictated by political expediency and admit that bimetallism has absolutely no chance of working unless all the leading countries of the world will cooperate and agree upon the same ratio of value between gold and silver. Inflation, advocating such measures as bimetallism and reducing the gold content of the dollar, is the most dangerous political football we have. Controlled inflation, as it is termed, is doomed unless it is non-partisan. Otherwise, it becomes a boon and benefit to special groups.

Inflation's only chance of success depends upon the confidence of the people. Wages and salaries must maintain a reasonable ratio of increase with price rises or confidence will be destroyed. There will be a rush to convert money into as many tangible goods as possible and the beginning of another economic winter will be at hand. Above all we must demand that our leaders respect past experiences as present guides. If they refuse to accept the lessons taught by the dark pages of economic history they will contribute dark pages to history that is being made. Our one hope lies in minimum and controlled ministrations of inflation spring tonic.

Chester H. McCall

The business

a compilation of business and

Straws in the wind

Blow hot, blow cold—the following straws indicate the strength and direction of the trade winds in recent weeks:

BANKING: The process of reopening banks placed under Conservators at the end of the bank holiday resulted in 360 of them obtaining licenses to resume unrestricted operations by April 22. Almost 5,000 national banks were operating then.

BUILDING CONSTRUCTION: Preliminary returns from 186 cities throughout the United States for the month of March show a total expenditure for building permits of $15,733,942. This is only slightly under the total for the identical cities for February of $15,933,279, and compares with $32,260,814 in March a year ago, or a decrease of 51.2 per cent.

BUSINESS FAILURES: Commercial failures in March were fewer than in any other March in the last eight years and the liabilities involved were smaller than in that month for several years past, according to the monthly analysis of defaults made by Dun & Bradstreet, Inc. They say in their report: "The records show 1,948 business defaults in the month just closed. This number compares with 2,378 for the short month of February and 2,919 in January. The reduction from February to March was 18.3 per cent. A year ago in March there was an increase of 8 per cent in the number of business insolvencies over the February total. It is not unusual for the number of business defaults in March to exceed those of February." An increase, compared with the previous week, featured business failures for the week ended April 20, but the total was substantially under the corresponding period a year ago. The defaults numbered 447, as against 439 in the previous week and 663 in 1932.

COMMODITY PRICES: An increase in the level of wholesale commodity prices and a decline in retail food prices from February 15 to March 15 were reported by the Bureau of Labor Statistics of the Department of Labor.. The index number of wholesale commodity places as computed by the bureau showed an increase for the first time since September, 1932. This index number, which includes 784 commodities or price series weighted according to the importance of each commodity and based on the average prices for the year 1926 as 100, averaged 60.2 for March, compared with 59.8 for February, an increase of 0.7 per cent.. Compared with the March, 1932, index number of 66.0 a decrease of more than 8¾ per cent was recorded.

STEEL: The steel trade was gratified to learn from the official report of steel ingot production in March that the month was slightly above the general low of last August and the secondary low of last December. Production was at 15.08 per cent of capacity, against 15 per cent in December and 14.2 per cent in August. There was a gain of at least 1 point by April 9 to fully 15 per cent in production of steel ingots. In the light of the reported swings in activity and the official report for March, the month is estimated as having opened at about 17 per cent, and to have maintained a rate of about 14 per cent in the last three weeks of the month. Steel ingot production in this country was scheduled to expand to 27 per cent of capacity on April 25th, compared with 25 per cent and 20½ per cent in previous weeks, the sharpest rise of the depression and recouping all of the ground lost since February, 1932, states the magazine "Steel." It reports that March exports, which showed an increase for the third consecutive month, were the largest in twenty consecutive months at 80,567 tons compared with 63,936 tons in February. Imports, after three consecutive monthly declines, increased in March to 22,114 tons from 19,748 tons in February.

The Central United National Bank of Cleveland has compiled this summary of terms which are indeed timely as an aid in the day's reading:

FEDERAL RESERVE: A system of 12 banks, privately owned and organized for profit under an act of Congress, passed in 1913, which authorizes them to "bank for bankers" as follows: (1) make loans to member banks in need of quick cash but unable to sell their securities except at a heavy loss; (2) issue paper money to expand the nation's currency when business demands; (3) centralize the reserves of member banks so that surplus funds of one locality can be transferred to another locality and help business; (4) act as fiscal agent of the U. S. Government by handling its deposits and marketing its securities. The banks operate in districts centering, economically, in the following cities: Boston, New York, Philadelphia, Atlanta, Richmond, Cleveland, St. Louis, Minneapolis, Kansas City, Dallas, Chicago and San Francisco.

MEMBER BANKS: All national banks are required by law to be members of the Federal Reserve System. Other banks and trust companies may belong if they are willing to meet the requirements.

NATIONAL BANKS: Chartered by the Federal Government and solely responsible to it under periodic examinations made by the U. S. Comptroller of the Currency.

STATE BANKS: Chartered by the state in which each operates and subject to its supervision and examination by its designated authority. Not subject to Federal regulation.

COMMERCIAL BANKS: A very elastic, but not a legal, term often used to designate all except Federal Reserve banks. More properly any national bank, state bank or trust company or institution engaging in a general banking business with individuals and private concerns.

DEPOSITS: The Federal Reserve bank receives as deposits all of the reserve funds of every member bank in its district. This is one of the requirements

thermometer:

financial trends and indications

of membership in the system. These reserves of member banks constitute a certain proportion of their own deposits which state and federal laws require them to set aside. The Federal Reserve banks, in their turn, are required to hold as a reserve in gold or lawful money a sum equal to 35% of their own deposits. The Federal Reserve banks can invest or loan to member banks the remaining 65% of the money on deposit.

CAPITAL: The Federal Reserve bank operates with capital obtained from the sale of its stock to member banks. Upon being admitted to membership, each bank is required to buy stock in a fixed proportion to its own resources.

FEDERAL RESERVE NOTES: Each of the Federal Reserve banks may create paper money called Federal Reserve notes and pay it out. This happens, generally, when the Reserve bank runs short of cash for use in loans to member banks. The member bank pays its depositors with these notes which thus get into circulation. On March 8th the amount of such notes in circulation rose to the record figure of $4,215,006,000 or 60% of all of the cash in use in the U. S. The ratio is between 40 and 50 per cent in normal times. Federal Reserve notes are based on collateral equal to their full value or better. This collateral by law must always be 40% gold while 60% may be in the form of the so-called eligible paper with a certain proportion of government bonds and notes. This collateral is deposited with the Federal Reserve Agent.

FEDERAL RESERVE AGENT: An official attached to each Federal Reserve bank and appointed by the Federal Reserve Board at Washington. He might be called the "uncle" of the Reserve bank. He receives and holds the gold and other collateral impounded as backing for money issued by the Reserve bank. He receives the unissued paper currency from the U. S. Treasury, holds it until the Reserve bank needs it, and finally turns back the collateral to the Reserve bank when the notes are retired.

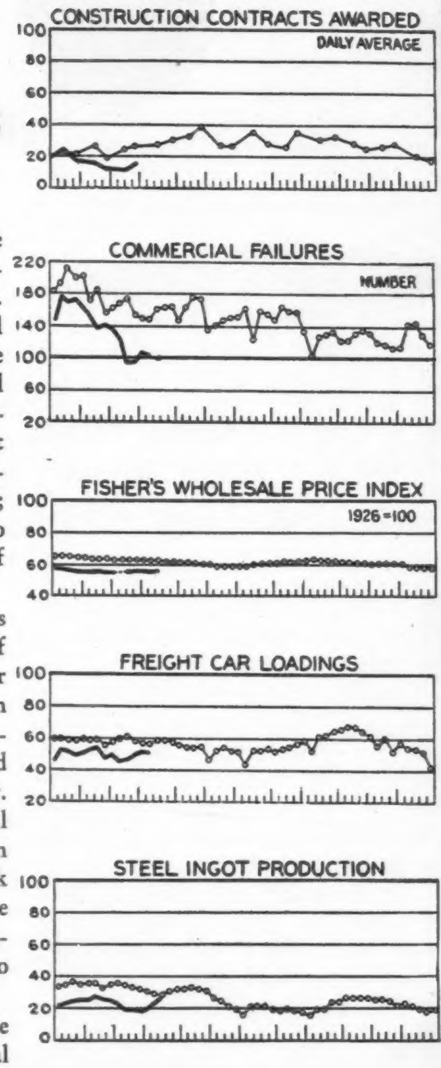
FEDERAL RESERVE BANK NOTES: The form of currency issued in quantity following the re-opening of the banks. Must not be confused with the Federal Reserve notes. May be issued by the Federal Reserve agent to the Federal Reserve banks without any gold collateral. Collateral that is required must be either (1) U. S. Government Securities of value equal to the notes emitted; or (2) other sound securities in the ratio of $90 of notes to each $100 worth of collateral.

REDEMPTION: Federal Reserve notes are redeemable in gold on demand of bearer at the U. S. Treasury, dollar for dollar, at any Reserve bank, and in practice, at any commercial bank. Temporarily, however, redemption in gold has been suspended by Presidential order. Federal Reserve *Bank* notes do not call for gold. They are a direct obligation of that particular Federal Reserve bank which issues them. Federal Reserve notes are a direct obligation of the entire system of Reserve banks and also of the U. S. Government.

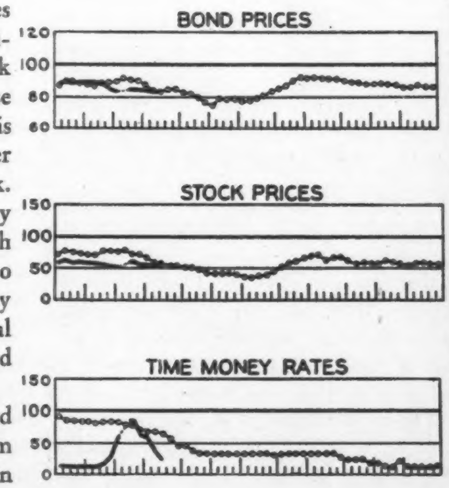
CURRENCY EXPANSION: This is made possible through power of the Federal Reserve banks to issue paper money. It is necessary to keep business supplied with credit without forcing commercial banks to sacrifice sound securities against sudden demands by their depositors for cash. The commercial bank borrows from a member bank to replace the currency that he has loaned to his individual depositors. The member bank borrows from the Reserve bank. The Reserve bank borrows its currency from the Federal Reserve agent. Each borrower, however, deposits collateral to secure his loan, so that the paper money which is created has behind it the actual business transactions of the United States.

ELIGIBLE PAPER: Collateral offered by member banks when borrowing from the Federal Reserve banks to obtain Federal Reserve notes is restricted to what is known as eligible paper. Congress made the restriction to make sure that Reserve notes (*Cont. on page* 34)

Commercial



Financial



Dep't. of Commerce Charts, 1923-25 = 100

Inflation's shadow

As inflationary ideas are spreading, lets take stock of their significance. What price inflation? Will we gain or lose?

"The popular conception of an immediate and direct relationship between credit changes and price changes is erroneous."

by H. PARKER WILLIS,
Former Secretary,
Federal Reserve Board

Within the past year, the public has occasionally heard statements about the danger of inflation, or, on the other hand, the necessity of it. During the Spring of 1932 it frequently was told by our treasury officials of the necessity of "controlled inflation," while others invented the word "reflation" although they did not exactly define it. The exigencies of the election campaign led many of these inflationists to take strong ground against what they formerly advocated; so that today, it is difficult to know where the public opinion stands.

Nevertheless, a decision as to inflation and its relation to public welfare is vitally necessary, as an element in public education. Particularly is this true of that phase of inflation which has to do with taxation, and the needs of the public treasury. In order to clear away the debris of political discussion, and to approach this problem without undue obstruction, we shall do best by considering, first of all, what is meant by the terms "inflation" and "deflation."

As is the case of most economic discussions, inflation and deflation are terms that are used in many different senses. It is best to begin by giving them their correct definitions, as employed in the language of economics. Inflation is that condition of banking in which the assets of the enterprise are, on the average, much longer in term or period than its liabilities. Thus, if a bank carrying a line of demand deposits has its assets chiefly in loans on real estate bonds, and long term commitments, it may be said to be inflated.

Deflation, on the other hand, is the process by which a bank is brought back to a position of equilibrium between the maturities of its assets and liabilities. Thus, a deflationary policy is one which provides for the early sale or realization of long term assets such as bonds, real estate loans, and the like, and which thus restores so-called "liquid" condition in the bank.

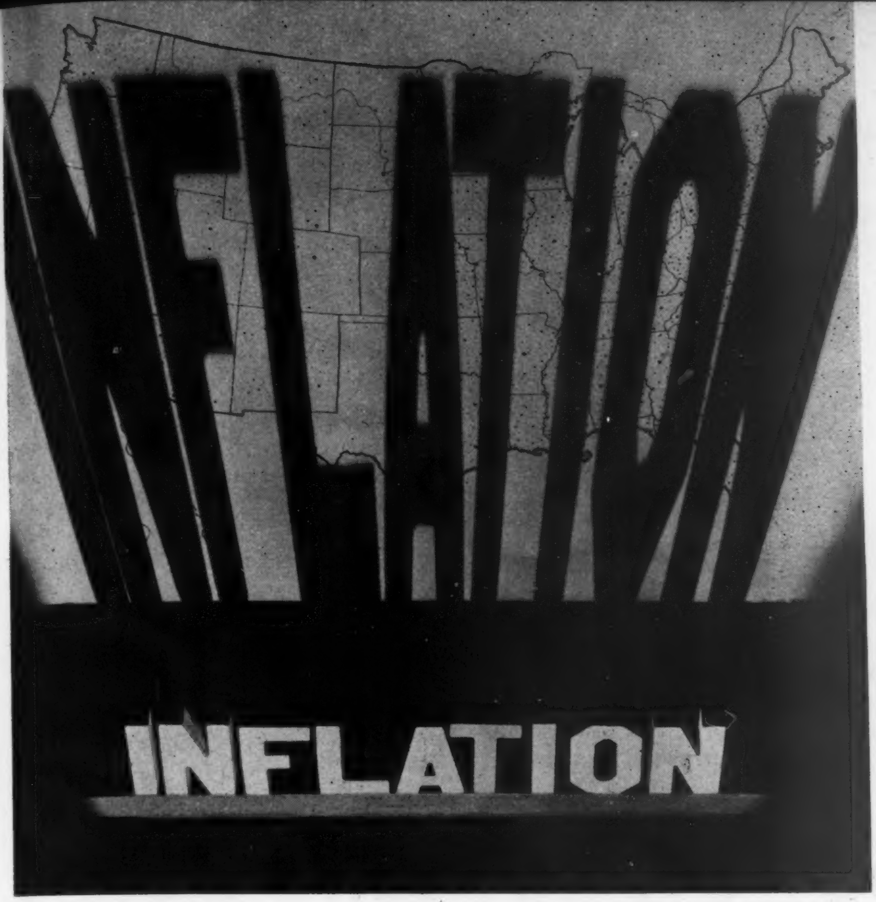
The popular definition of these terms is different. According to political use of the term "inflation," the essential significance is found in the increase of prices, either of securities or commodities, or both. Thus, a bank is said to be carrying on an inflationary policy when it attempts to bring about increases in prices. And, its policy is said to be deflationary, when it withdraws credit and so, presumably, causes prices to fall. Generally speaking, the term "inflation" is thought of as bringing about a generally higher valuation of goods, services, and commodities in relation to money, than that which, on the average, prevails or which at some recent and presumably normal period existed. "Deflation," conversely, is thought of as representing an elimination of waste or the cutting down of prices to a very conservative level. This view of the two terms has made its way widely into popular thinking, but it is necessary to abandon it practically completely.

There is no necessary connection between changes in the character of banking assets or changes in the amount of bank credit on one hand and changes in the price level on the other. Whatever connection there may be makes itself apparent at varying intervals and under different conditions that render it extremely difficult to trace. The popular conception that there is an immediate and direct relationship between the two—credit changes and price changes—is erroneous and, by careful thinkers, is practically universally so admitted.

From this it follows, of course, that inflation and deflation are not what are popularly supposed, and that the nature of their real working is far more difficult to analyze than is ordinarily assumed.

It will now be desirable to inquire what the relationship may be between public credit and inflation or deflation. The public treasury is not a productive institution but it depends upon the productive activities of others for its support. Its outlay constitutes a deduction from the net stock of wealth in the community. This deduction is usually made in the form of money or bank credit and may be obtained either through taxation or through borrowing at banks. It is, therefore, necessary to inquire into these two conditions separately, and the question may be asked, first of all, what changes in the effects of taxation are produced by a policy of inflation on the part of the banks.

Bank inflation, as we have seen, is essentially a process of withdrawing an undue amount of liquid or short term funds and putting it into capital funds. Such a course of inflation was going forward at a rapid rate during the years 1926-29—years which, by the way, were years of slightly falling commodity prices. In those years a very large structure of productive capital was being erected. In so far, therefore, as taxation was made to bear upon productive capital, as for example, through taxes on business, the influence of inflation was to enlarge in a disproportionate way the volume of income which was flowing into the public treasury by unduly enlarging the basis upon which tax rates were levied. If, at the same time taxation was levied also upon consumption—as for example, excise



taxes, taxes upon theatrical performances and the like—the effect of it was to tend to discourage such consumption and to that extent to increase the drift toward inflation.

Briefly speaking, we may say, therefore, that the direct effect of inflation upon the public treasury in such a situation, depends upon the extent to which the treasury is getting its incomes from businesses or occupations or sections of capital that are affected by inflation; and since, as we have seen, banking inflation is a process of building up long term or productive capital, it is fair to say, briefly, that inflation tends to enlarge public revenues—subject, of course, to the modifications already sketched.

But, as already noted the nation may not be working upon an overcarefully budgeted basis, but may have necessity for borrowing at banks. If such a nation is in the habit of covering its deficit by adding to the public debt—that is to say, by currently borrowing at banks—it clearly adds to the long term holdings of these banks, or, in other words, it is itself a producer of inflation, and is a cause of increasing weakness on the part of the banks due to increasing disproportion between the maturity of assets and of liabilities. Relatively speaking, therefore, we may say that a borrowing policy carried on by a government during a period of inflation aggravates that inflation, or may, itself, be the source and origin of the inflationary movement. The question how this will affect the rank and file of the public may be deferred for discussion until later. At this point, it is sufficient to say that the effect of government policies of the kind just referred to is to create or intensify inflation, and emphasize its results, whatever the latter may be shown to be.

Deflation has also its relationships to public policy. In a time when real estate or security values are shrinking and when at the same time there is much effort to liquidate bank holdings, i.e., to convert them into assets of equal period with liabilities, there is a tendency to cut away the base upon which taxation rests, and hence to reduce government incomes. If, at such times, the government be a borrower at the banks, it may tend to fill the latter with its own obligations, in which case the deflation of other assets may continue while an offsetting element of inflation is introduced through government borrowing. From the standpoint of bank stability this may be the most dangerous of all possible conditions.

It is now worth while to turn attention to some effects of inflation in general, in order to clarify the influence of the government policies along the lines already indicated.

In studying the general influence of inflation, it is desirable to consider the subject in three aspects, (1) in its relation to the banks, themselves, or to the banking "system;" (2) in its relation to customers of the banks, and (3) in its relation to the public at large. These may be considered in order.

So far as the banks, themselves, are concerned, the influence of inflation is, as already stated, fundamentally that of lengthening the turnover period of the assets especially with relation to the turnover period of the liabilities. As the maturity of the assets grows longer and as it increases disproportionately to the liabilities, the immediate effect is to cut down reserves proportionately, and gradually to bring the bank nearer to inability to meet its obligations. It may never reach that point, due to the capacity to liquidate, or to outside aid, or to the fact that it merges with another institution, or to some other circumstance.

What is of interest here, is to know that the terminus of inflation is bank suspension, either with or without the accompanying rise in prices of commodities and securities. Moreover, as the bank's portfolio becomes gradually longer and more "frozen" the ability of the bank to lend to the rank and file of the community is correspondingly decreased. Its credit-granting capacity is reduced to proportion as its assets get out of adjustment with its liabilities. Every loan that is made for a capital purpose cuts down more than proportionately the volume of loans that may be made for exchange purposes. Thus, the second important effect of inflation upon the bank is that of contraction of credit—not of expansion—in the real sense of the term.

It may well be that for a short time inflation seems to enlarge the amount of bank credit available on the books of the bank, but this evidently is a judgment which is formed without taking any account whatever of what is termed the "velocity of circulation". As the bank's credits become immobile or fixed, they are correspondingly less available; or, if they are actually in use at a normal rate, the bank's ability to go on redeeming them is correspondingly curtailed so that the end of the process is more quickly arrived at. This may be understood by imagining a condition by which inflation affects all banks equally and carries all to the point where the banking system, as a whole, is unable to continue redemption.

The result then is the suspension of payment;—that is to say, a shifting of the standard of value to some other basis; and the reason for it is that the continuance upon (*Continued on page 33*)

Internal debt: our jig-saw puzzle

An interview with EDWARD A. FILENE by Chester H. McCall.

No one can dispute the fact that about 90 per cent. of our problems can be summed up in one word—DEBT! Banks can't pay their depositors what they gave them for safe-keeping; commercial organizations can't pay banks what they have borrowed; railroads and great industrial corporations have bonded indebtedness coming due on which they can't pay the interest let alone any of the principal; farmers, in a similar plight, can in only a small percentage of cases, pay the interest on their heavy farm mortgages; the man who is out of work or whose salary has been reduced from twenty to fifty per cent. can't pay the merchant who has allowed him credit; and the merchant can't pay the wholesaler or manufacturer who has sold to him on credit. These are only some of the pieces in our vast jig saw puzzle of internal debt but they illustrate the scope and nature of the catastrophic burden of outstanding and past-due obligations that have choked or clogged our economic channels.

This colossal problem of internal debt is taxing the mental resources, acumen and experience of our best minds today. But it is a problem with so many ramifications that the average person or the average business man is completely mystified. He receives neither answer nor encouragement in his search for a practical and intelligent answer that will encourage him to carry on and administer his daily work with confidence and understanding.

Ruskin, speaking of applied intelligence, said: "It is advisable that a man should know at least three things: first, where he is, secondly, where he is going, thirdly, what is best for him to do under the circumstances". These are the three things every business man wants to know about our present internal debt problems. Where are we now? Where are we going? What is the best thing to do under the circumstances?

I might have sought a symposium answer to these questions from ten different leaders and have received eight or ten different answers and viewpoints. Instead I went to a man whose economic analyses and convictions I have been closely familiar with through personal and business contacts for over three years. Furthermore, I have studied most of the writings and pronouncements that have come from him in the past ten or twelve years. His opinions and conclusions have been presented in these pages before. And one needs only to check the subject matter of articles by Mr. Filene, which appeared in this and other publications two and three years ago to see how unerringly his deductions have been borne out.

Edward A. Filene occupies an unusual and unique niche in our category of leadership. He has no axe to grind—either economic or political. A merchant himself and president of the great Filene store in Boston, he has never hesitated to criticize fearlessly practices and methods of big business men. He is one of the staunchest enemies of traditional thinking our country has ever produced. The world is Mr. Filene's laboratory. He has studied each year at first hand the economic conditions and developments in foreign countries. He has turned his searching mind upon a formidable array of problems ranging from merchandising and mass production to small loans and high finance. He is a scholar in his methods and a scientist in his conclusions. This and the preceding paragraph are not intended as encomiums. They merely set forth the frank reasons why I believe Mr. Filene is eminently qualified as a leader and as a thinker to answer the perplexing problems concerning our gigantic internal debt.

The Twentieth Century Fund, of which Mr. Filene is founder and president, has just completed a three months' study of our internal debt structure. It is a most unusual coincidence that I should ask Mr. Filene for an interview on the internal debt situation just at the time the Twentieth Century Fund completed its study on the same subject. Most of the figures and statistics

presented in this article come from the authoritative and comprehensive report made by the Fund. I believe this complete report, when introduced to the public sometime in May, will constitute one of the most important economic documents prepared since the War.

For purposes of analysis the study made by the Twentieth Century Fund segregated our internal debt into ten divisions. In my interview with Mr. Filene we did not discuss in detail each of these divisions. Instead I asked him to explain the three phases of our great debt problem: Where are we now? Where are we going? What is the best thing to do under the circumstances? I first asked for a brief picture of our present internal debt status—where we are now!

"Our present internal debt", Mr. Filene answered, "exceeds 225 billions. Our total long term debts, both public and private, are approximately 134 billions. The carrying charges on these long term debts is around eight billions and it takes about twenty per cent. of our income to sustain these charges alone. Since 1929 our total income has shrunk by about one-half while our internal debt has increased considerably. At the present time the total internal debt is only about 20% less than the national wealth. There, in a few words, is the debt situation as it faces us today".

"How did we get in the condition we are in today?" was the next question I put to Mr. Filene. "In other words, what are some of the major credit mistakes that were made during the past decade?"

"A complete answer to your question", he replied, "would require not one but several articles. The best I can do within the limitations of one article is to discuss a few facts and a few principles that reveal the reasons behind what has happened.

"The first principle for us all to remember is that debt is debt—whether it is Federal, State, municipal, corporate or individual. *It is all the same in its effect on buying power and prosperity.* Discrimination between the various types of debts is valuable only in so far as it enables us to apply a solution specifically to each of the various divisions of debt. I mentioned a moment ago that it takes twenty per cent. of our income to sustain the interest charges on our long term debts alone. Any reduction in our indebtdeness, no matter where it is, will decrease this charge and make the difference saved available as active purchasing power.

"The railroads, although accounting for only eleven per cent. of our total long term indebtedness, offer a very significant example of what has happened to get us into the condition we are in today. The reason behind the great problem of railroad indebtedness is this: *railroads have funded their debts instead of amortizing them.* Instead of taking up their bonded indebtedness when it became due they have funded or continued it over a future period of time. They are going on paying for capital investments that are no longer profitable nor productive. This practice of funding instead of amortizing, whether by railroads, public utilities or corporations, means *paying for dead horses instead of buying new automobiles.* We are constantly diverting a stream of money into hopelessly unprofitable channels instead of directing it into channels of purchasing power.

"Since 1929 long term indebtedness has increased six per cent. when business conditions during that period warranted a decrease of much more than six per cent. Following the war up to 1929 the great increase in long term indebtedness was supported and sustained by the nation's general economic expansion. From 1921 to 1929 our long term debts increased fifty-one billion dollars. During the same period our national wealth increased sixty-four billions. Our national wealth increased more rapidly than our indebtedness but the fundamental evil was the funding instead of amortizing many debts during that period. But compared with national income as it stands today long term indebtedness is double what it was in 1929. So our debt problem becomes not only one of total amounts owed in dollars but one of the relative value of the dollar. For over three years we have had a constantly decreasing national income, an increasing long term indebtedness in total dollars but a still greater disparity between amount owed and income to pay the debts with because of a greatly deflated dollar.

"During the years following the world war and up to the collapse of 1929, our people both as business men and individuals, contracted debts payable many years thereafter. These debts carried an unchanging rate of interest based upon pre-depression assets and income. The fundamental fallacy here that led us into so much trouble was the assumption that both values and income would increase with the years. Had this assumption been correct we wouldn't have to put out twenty per cent. of our income today for fixed charges as we are doing. Industrial production is fifty per cent. of 1929 levels, factory employment 41 per cent. below, wholesale commodity prices 37 per cent. lower, and farm prices average fifty per cent. lower—yet our long-term internal debt has increased. Considering these facts, (Cont. on page 28)

Our internal debts: what and how much

	Pre-war year (1913-14)	Post war depression year (1921)	Peak of boom year (1929)	Latest available year (1932-3)
NATIONAL TOTALS:	(000,000 omitted)			
Long-term debts	$ 38,000	$ 75,000	$126,000	$134,000
National wealth	192,000	321,000	385,000	300,000
Per cent of wealth represented by debts	19.7%	23.4%	32.7%	44.7%
Debt charges	2,143	4,953	7,642	7,910
National income	36,000	66,000	85,000	40,000
Per cent of national income represented by debt charges	6%	7%	9%	19.8%
CLASSES OF LONG-TERM DEBTS:	(000,000 omitted)			
Urban mortgages	5,151	8,968	27,616	27,554
Financial corporations	4,040	6,740	19,767	21,919
State and local (public)	4,751	9,420	16,556	18,685
Federal government	968	15,965	12,155	14,237
Railroads	11,186	13,216	14,065	14,264
Industrial corporations	3,738	4,820	10,170	10,450
Farm mortgages	3,320	7,858	9,469	8,500
SHORT-TERM DEBTS:	(000,000 omitted)			
Business debts	47,000	93,000	128,000	89,200
Personal and household	4,000	9,000	22,000	14,000

Credit ceiling

When prices rise rapidly during inflation, new credit problems arise. Can the credit grantor extend credit with money depreciation possible? Should he revert to a cash or a barter basis to safeguard his credit extension?

by H. W. HUEGY, University of Illinois, Urbana, Ill.

The credit man being neither politician nor statesman cannot, when considering political proposals or accomplishments, be expected to "view with alarm" or even to "point with pride." He merely looks with curiosity, disapproval, or occasional approval upon the proposals, efforts and one might rudely say, antics of the congressmen and statesmen gathered in more or less august assembly at Washington.

Among the numerous proposals which, because of their close relationship to his activity, he is called upon to view; are any number of more or less seriously considered suggestions for economic tinkering. A group of these may be broadly classified under the heading of inflation. Some of them being disguised by the use of the less alarming titles of reflation, anti-deflation, devaluation of the dollar, or restoration of price levels. If some of these proposals to tinker with the money, currency, or credit of the nation, which are being urged by various groups and individuals, were adopted they would, by their effects upon business and the home, reach every individual in the nation.

What should be the attitude of credit men towards these various schemes and devices?

Does he have any interest in them beyond the ordinary interest of an intelligent citizen? Do they bring in their train problems which, because of the nature of the profession he follows, make such proposals of special significance to the credit grantors of the country?

To answer these questions it is necessary to examine the granting of credit and determine its essential characteristics. Credit is, in its essence, an exchange involving futurity. It consists of the creation of a medium of exchange whereby present goods or services are exchanged in the present in return for the promise of a future return of like goods or services or their equivalent. In the modern economic organization these goods and services are translated into terms of money values and the future return which is to be made is a return of a quantity of money of equivalent value to the present discounted value of the goods and services to be exchanged. This necessarily assumes that the value of money will remain stable and will correctly equate present and future values.

The credit man stands at the crossroads or junction point of this economic process. He approves the medium of exchange which is created and accepted by his firm as the equivalent of the present goods and services which are surrendered. He does this by passing the credit which is given by the purchaser. In the normal operation of the business organization labor, raw materials, and other forms of capital goods are converted into commodities which are sold on the market. The credit department is responsible for the return flow of capital funds sufficient to repurchase the raw materials, hire labor and restore the depletion of capital goods which are necessary to the resumption of the cycle of operations. This return flow of capital is under normal profitable business operations sufficient not only to restock material, replenish depleted assets and hire labor; but over and above these requirements, to furnish an additional return or profit which may be used to expand the business, pay dividends to owners, or both.

The credit man thus has the two-fold responsibility of approving every credit offered him by buyers; first, in the interest of volume of profitable sales and maintenance of competitive position, second, in order to keep the return flow of payments at such a rate as will maintain the working capital of the organization and replace depleted fixed capital. In these times of greatly shrunken volume and continuing irreducible overhead the credit man is, of course, anxious to approve every sound credit that is offered him.

As the basis of this approval he must consider present facts and project these facts into the future. In other words, the contemplated liquidation of to-day's exchange lies in the future and adequate consideration of future conditions must modify today's decision. To the normal and expected uncertainties which inevitably cloud any future transaction he now finds an additional difficulty in the form of possible inflation. To most of the present generation of American business men the difficulties involved in monetary inflation are a matter of hearsay rather than actual experience.

The generation of American business men active during the period following the depression of 1873 and down to 1900 had the prospect of inflation continually recurring. First it was in the form of agitation favoring the reissuance of the greenbacks, later urged by the supporters of bimetallism and the recoinage of silver. This agitation was not definitely squelched until the defeat of Bryan and the passage, in 1900, of the gold bill. The old shibboleths of 16 to 1 and the rest of the claims and slogans of that era are being once more repolished and refurbished.

Our business men following the World War have witnessed, as spectators rather than participants, the spectacle of monetary disturbances in other countries. In our own country we had credit inflation which carried prices to considerable heights and introduced speculation in extravagant form, but fortunately never got to the point of monetary insecurity; the gold standard being preserved intact and the inflation of prices being definitely checked by the operation of the maintained gold standard.

These historical examples show that the term inflation may refer to a variety of conditions. Thus, although variously defined, the term inflation as generally used refers to any change in the general level of prices either caused by, or accompanied by, a disturbance of the previously existing monetary or credit conditions. This condition is accompanied by indications of the disease in the form of: rising prices, the exist-

ence of a premium on gold, and depreciating exchanges. Inflation may take the form of a disturbance as dramatic and complete as that of Germany when the price level rose to heights which can only be comprehended by astronomical figures, and the quantity of money in circulation rose to corresponding fabulous sums, while the value of the money sank to infinitesimal amounts. It may be a disturbance which may be slight and controlled as in the case of England. There the currency, although divorced from the former stability with reference to gold, has not been increased to undue proportion. Although prices have risen they have not gone to excessive heights. The exchange rates have been the principal criteria of inflation by their fall from a par of $4.86 to a level about 25 per cent to 30 per cent below the old par.

Regardless of the extent to which inflation may be experienced it brings into a hitherto relatively stable situation an element of uncertainty. Present debts contracted on the basis of a money of a given purchasing power are repaid in terms of the same monetary unit, but with money having a purchasing power which is reduced. The return flow of funds under these conditions may not be sufficient to replace the working capital which has been sold. The payment of accounts will be inadequate to permit the merchant to restock his shelves or the manufacturer to restore his raw material inventory and to reemploy the labor necessary to embody the raw materials in the form of finished goods available for resale. The merchant and manufacturer is left with a continually decreasing stock of working capital on hand. The credit man, although he may have reduced his bad debt loss percentage to one-tenth of one per cent of credit sales, has still failed to collect sufficient funds to protect the integrity of his firm's resources.

True, the prices of the firm's products continue to rise as do the prices of raw materials and labor. True, if they sold today for cash and priced their goods on the basis of present replacement prices they could secure a price sufficient to restore their inventory; but the introduction of credit into the mechanism introduces, as we have previously stated, an element of futurity. Payment is deferred until some period from 30 to 120 days in the future. By the time payment is secured prices have again risen. If the price rise has been slight it may merely result in the sacrifice of contemplated profit. If the rise has been rapid the return may be such as to wipe out anticipated profit and may even result in a loss in terms of commodities or in terms of real assets.

The credit man is thus seen to be vitally interested in the prospects and possibility of inflation. Should he continue to extend credit today with the possibility of depreciation of the money in sight? If and when the expected depreciation comes about can he so protect himself, or his firm, as to continue to safely transact business on a basis of credit, or must reversion be made to the more inconvenient and outmoded system of cash sale, or even further retrogression, must the reversion be back to the almost forgotten and superceded system of barter?

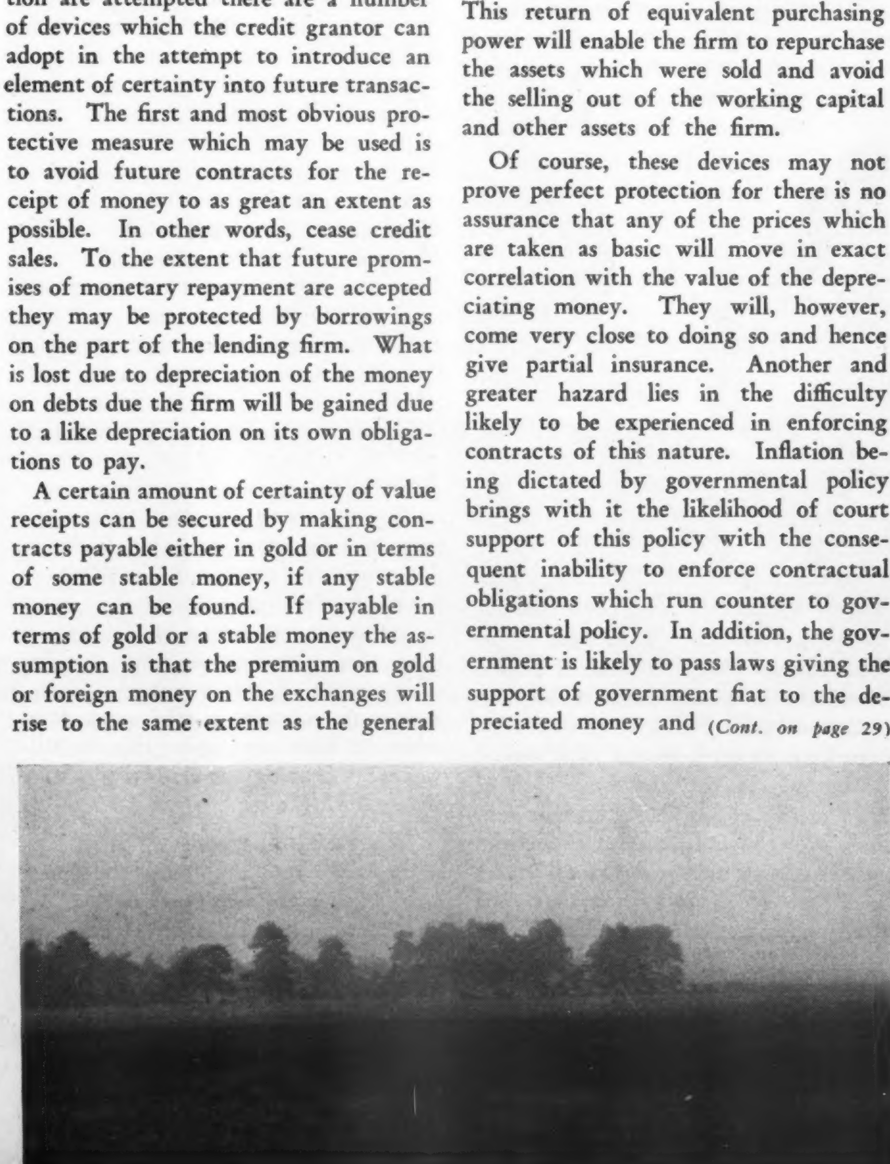
Under conditions of monetary instability and the rapidly fluctuating and rising prices which are likely to be experienced when experiments with inflation are attempted there are a number of devices which the credit grantor can adopt in the attempt to introduce an element of certainty into future transactions. The first and most obvious protective measure which may be used is to avoid future contracts for the receipt of money to as great an extent as possible. In other words, cease credit sales. To the extent that future promises of monetary repayment are accepted they may be protected by borrowings on the part of the lending firm. What is lost due to depreciation of the money on debts due the firm will be gained due to a like depreciation on its own obligations to pay.

A certain amount of certainty of value receipts can be secured by making contracts payable either in gold or in terms of some stable money, if any stable money can be found. If payable in terms of gold or a stable money the assumption is that the premium on gold or foreign money on the exchanges will rise to the same extent as the general level of prices and thus the depreciation of the money will work no injury to the credit granting firm.

This same element of contractual security may be otherwise secured. Among such devices may be mentioned the possibility of making contracts providing for payment in a varying amount of the monetary unit. The amount to be paid depends upon certain indices; for example, the exchange rates on a stable money country, or a price index of commodities.

As will be seen the purpose of these devices is to enable the firm receiving future payment in terms of money to protect itself from continued depreciation of the monetary unit and to receive payment in sufficient amounts to secure the return of purchasing power equivalent to that which was loaned at the time the contract was entered into. This return of equivalent purchasing power will enable the firm to repurchase the assets which were sold and avoid the selling out of the working capital and other assets of the firm.

Of course, these devices may not prove perfect protection for there is no assurance that any of the prices which are taken as basic will move in exact correlation with the value of the depreciating money. They will, however, come very close to doing so and hence give partial insurance. Another and greater hazard lies in the difficulty likely to be experienced in enforcing contracts of this nature. Inflation being dictated by governmental policy brings with it the likelihood of court support of this policy with the consequent inability to enforce contractual obligations which run counter to governmental policy. In addition, the government is likely to pass laws giving the support of government fiat to the depreciated money and *(Cont. on page 29)*



Milwaukee convention — series: A, number: 5, year: 1900

A word snap-shot of the N. A. C. M. in its fifth year

by PAUL HAASE

The turn of the century. Hobson's daring is still the subject of admiration and conversation. Dewey and Manila are synonymous for bravery. The national joke is "get a horse". Full-skirted and tightly corseted ladies sweep majestically up and down the avenues of our cities escorted by moustached males. Teddy Roosevelt, the idol of millions, is Vice-President under McKinley.

A bright dawn of a new century. A growing nation sensing the luxurious thrill of realizing its strength and power. It has left its continental aspirations behind. It is now a world power. The Philippines, Puerto Rico, Alaska, Hawaiian Islands, the Canal Zone—all pay homage and respect to the stars and stripes.

Industrially and financially the nation is expanding. Bigger and bigger combinations, larger and larger financial transactions are the order of the day. Transportation facilities increased ten times in fifty years. Electricity promises a new era. The telephone is in almost universal use and with pride the American Telephone Company announces its aim of giving telephone connection with every community in the United States of not less than 250 people. Typewriters are no longer a novelty. The stenographer in business is a common sight.

And despite these tremendous steps forward much of America's commercial system had lagged. One of these lags was in the matter of credits and credit information. And out of the necessity for a newer and better service had been born at Toledo, Ohio in 1896 the National Association of Credit Men.

Milwaukee 1900. The fifth annual convention of the National Association of Credit Men.

Looking forward to the 38th annual convention the week of June 19th of this year, we are interested in that first Milwaukee convention when this growing Association met in the Hotel Pfister from June 12 to 14th. At that time the Association numbered 3000 members. Its interests were exemplified by its five standing committees: Legislative, Business Literature, Credit Department Methods, Improvement of Mercantile Agency Service, and Investigation and Prosecution of Fraudulent Failures. Under the head of Credit Department Methods, the Association had, already in its fifth year, devised uniform inquiry blanks, property statement blanks and a practical and elaborate plan for the management of credit departments.

Through its local branches it had succeeded in having laws passed in Louisiana, Alabama, Ohio, Oregon, Minnesota and Maryland, to prohibit sales of stocks of goods in bulk and to forbid preferences. It had exerted a dominant influence already in behalf of the National Bankruptcy Law and was, as it is today, in the forefront of the effort to secure prompt and rational amendment of that statute "to the end that the benefits and blessings that should naturally flow from the existence of well-thought-out legislation on this question may not be denied to the people." One of its most important aims was the passage of such laws as would "secure to the creditor all his rights in the estate of the debtor and to lessen the possibility of failures known to be fraudulent."

"The policy of the Association," we read in the 1900 Convention Bulletin, "is to help the unfortunate merchant if he be deserving; but to spare no effort to secure his punishment under the law if he shall have been dishonest." That is a picture of this youthful and dynamic Association in the year 1900 when its fifth convention met at Milwaukee. Leading the Association were the following men:

John H. Field, President
Fred. W. Standart, Vice-President
T. Homer Greene, Treasurer
Wm. A. Prendergast, Secretary

The Association's Directors were:
Philo. E. Hall
Arthur G. Bennett
Albert C. Case
Benson G. McMechen
William H. Preston
A. Jerome Wolf
William H. Taylor
W. E. Roberts
Elbert A. Young.

President John H. Field called the fifth convention to order at 10 o'clock on Tuesday, the 12th of June, 1900. He was followed with addresses of welcome by Mayor David S. Rose of Milwaukee, Governor Edward Scofield of Wisconsin, and H. M. Battin, President of the Milwaukee Association. The feature of the morning session was an address on "Business Morality" by John R. Ainsley of Brown, Durrell and Company, Boston, Mass. Resolutions and open sessions on these resolutions took up the remainder of that morning's program, and after adjournment at 2 o'clock, trade conferences began at 4 P. M. with six trades represented: Boot and Shoe, Clothing, Dry Goods, Groceries, Hardware and Implement Trades. They correspond to our present Credit Congress of Industry which, coincidentally, will also be held on Tuesday at this year's convention but with 30 groups instead of 6. One or two addresses in each meeting were the main features, most of the time thereafter being taken up with long many-claused resolutions each of which was followed by open discussion.

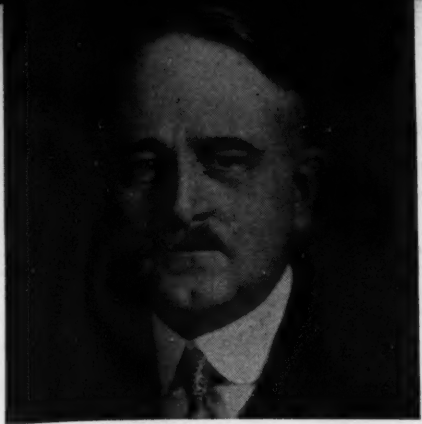
But the convention was not all work. It had its lighter moments. Sight-seeing and touring was as much a part of the program in that day as it is today. The difference lies in the variety of entertainment. In the May bulletin of the century's first year is a skeleton listing of the formal entertainment program:

Tuesday evening—Concert at the Deutscher Club.

Wednesday morning—Tallyho ride for ladies. (Continued on page 29)

Milwaukee who's who

Committee members



W. K ADAMS, Chairman

R. S. SHANNON, President

S. C. GREUSEL, Executive

I. B. DAVIES, Executive

R. P. BOARDMAN, Oshkosh

W. C. GRIMMER, Green Bay

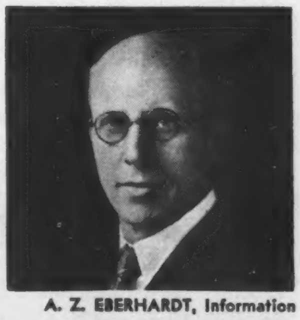
A. H. LAMBECK. Executive and Program

E. J. STENZ, Fond du Lac

MISS E. BODENDORFER, Cr. Wmn.

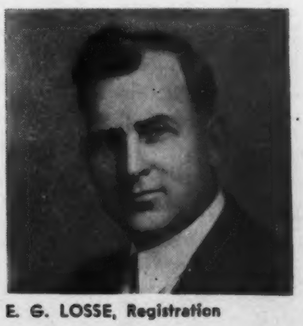
F. J. BURY, JR., Reception

G. J. CHRISTIANSEN, T'portation



A. Z. EBERHARDT, Information

MRS. S. C. GREUSEL, Hostess

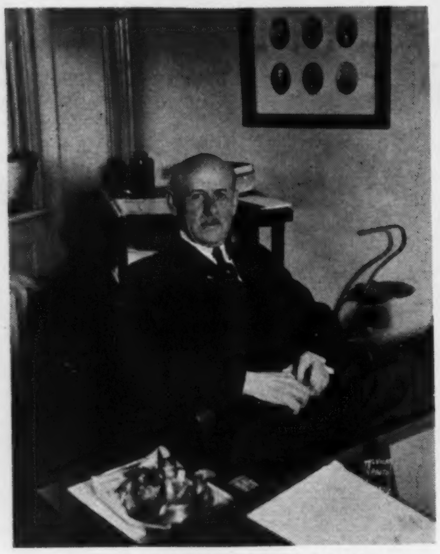


E. G. LOSSE, Registration

FRANK G. SMITH, Publicity

F. F. STUCKERT, Entertainment

DANIEL W. HOAN,
Mayor of Milwaukee



A. G. SCHMEDEMAN,
Governor of Wisconsin

E. DON ROSS,
N. A. C. M. President

"Welcome"

Gentlemen:

Milwaukee has reason to feel proud of the honor and distinction of entertaining the National Association of Credit Men's convention during the week of June 19th, this year. I know that this will be a particularly happy occasion for the local association because it is the first time in 33 years that this convention will be held in Milwaukee.

It is peculiarly appropriate for credit men to conduct their deliberations in Milwaukee this year. You men appreciate the importance of maintaining a good credit standing in these times of economic chaos and uncertainty. For many years Milwaukee has had the best credit rating of any city in the country. Notwithstanding the financial stringency brought on by the depression, the effects of which are now being felt here, I challenge anyone to point out any large city in the United States that is in a better financial condition than the city of Milwaukee.

You men know that a city's credit is reflected in the stability of its financial institutions. Public confidence is an essential factor. As long as the public has confidence in the integrity and stability of its local government, it will retain confidence in its financial institutions. We have had many examples to show that in cities where local government has broken down, banks and other financial institutions have likewise suffered from lack of public confidence.

Milwaukee is fortunate today in having rehabilitated its pension funds, which were virtually bankrupt in 1910, placed its financial housekeeping in good order, wiped out all past deficits, established an Amortization Fund, now amounting to over $4,000,000, which will eventually retire its bonded indebtedness, and in transforming its operations from a partly non-cash to a strictly cash basis commencing with this year. This process of financial readjustment, going on over a period of twenty years, finds us today in a better financial condition to cope with the problems of the depression than any other large city in America.

But more than this, we have achieved first place in public health, safety, fire prevention, crime control, playground development, social centers and many other activities of enlightened municipal administration.

In extending a cordial welcome to Milwaukee, I hope your stay here will be both pleasant and profitable and that you will have a most successful convention. Milwaukee's proverbial hospitality awaits you.

To the N. A. C. M.:

I wish to extend the official welcome of the State of Wisconsin to the members of the National Association of Credit Men who are to meet in Milwaukee during the week of June 19, 1933.

Without question, the problems of the Association with regard to retail and wholesale credit are mightily important problems, especially during this period of world economic depression. It is my sincere wish for the Association that its meeting in June may be additionally productive of solutions which will have the welfare of the world of finance and industry, as well as that of society in general, close at heart.

While the major purpose of the meeting of the members of the National Association of Credit Men is purely the important business of the Association, I do hope that the individual members may have the time to avail themselves of their hearty welcome to Wisconsin by its citizens and thoroughly enjoy their all-too-short visit to the Badger State.

Fellow Members:

During the past few years it has been impressed upon most of us that each must exercise his keenest judgment and foresight in handling the daily problems which apparently multiply in a period of readjustment. To avail ourselves of the mental resources of others and to renew the "springs of personal endeavor" through contacts with fellow-craftsmen, there have been devised no agencies more effective than regional conferences and national conventions.

It is therefore my belief that too great emphasis cannot be placed upon the value of our 38th Annual Convention which assembles in June at Milwaukee. This gathering will have a most admirable host, an outstanding meeting-place and offers a program of the highest standard.

May we anticipate an occasion of profit and widespread benefit with the responsibility for a representative attendance placed upon your shoulders and mine.

Credit congress: 1933

On the second day, June 20, of the coming convention, the Credit Congress of Industry will be held.

On Tuesday, June twentieth, the second day of the 38th annual Convention of the National Association of Credit Men, will be given over entirely to the Credit Congress of Industry. Groups representative of almost every field of industry will meet that day to deliberate their problems, to counsel among themselves as regards both the general credit situation and those phases of it which in a particular manner are of outstanding importance in each individual trade.

The general sessions of the Convention will, of course, cover the major credit considerations affecting all industries, while in the group sessions of the Credit Congress of Industry the national aspects will be treated in more detailed programs builded around each trade's individual plans and problems. These programs are being arranged now. Chairmen and speakers on each group program, all outstanding men in their fields, are making every effort to pack into their group sessions every subject of interest, and present indications are that each group will find ample material for its deliberations and discussions.

The value of local group meetings is recognized everywhere, and the importance of national coordination of the group work to the individual as well as the trade cannot be over-estimated. In no other way can the community of interests in groups and between groups merge into the all-necessary cooperation from which every improvement in business practice results. Every credit executive will find in his credit group that friendly, personal contact which he needs so much if he is to keep abreast of developments in his trade and contribute his share to the constructive changes and adjustments developed.

The group meetings planned for the Credit Congress of Industry so nearly represent a cross-section of business that almost every delegate will be able to find a group meeting holding absorbing interest for him. Each delegate will find attendance at his group meeting time well invested and personal contact with his trade associates productive of much benefit to him. Decide right now to be present at your group meeting at the Credit Congress of Industry in Milwaukee on June 20th.

PHILLIP J. GRAY,
Credit Congress Director

Group Meetings Planned

- Automotive
- Bankers
- Bar Steel
- Building Materials
- Cement Manufacturers
- Ceramic Supplies
- Clothing and Dry Goods
- Coal
- Confectioners Manufacturing
- Drugs, Confections and Tobacco Wholesalers
- Drug and Chemical Manufacturers and Allied Lines
- Electrical and Radio
- Fine Paper
- Florist Supplies
- National Food and Allied Products Credit Group
- Food Products Wholesalers
- Footwear
- Furniture
- Hardware Manufacturers
- Hardware Wholesalers
- Insurance
- Iron and Steel
- Jewelry
- Millinery
- Newspaper
- Paint, Oil and Varnish
- Petroleum
- Plumbing and Heating
- Stationers Office Equipment
- Textile

Your trade associates will be looking for you at the Milwaukee Convention the week of June 19th—don't disappoint them.

N. A. C. M. officials now developing the 38th Convention at Milwaukee, week of June 19th. HENRY H. HEIMANN, Executive Manager, DAVID A. WEIR, Assistant Executive Manager, BRACE BENNITT, Convention Director.

"Give" or "take" credit

When we cease "giving" and begin "taking" credit, we will then set about getting that credit information without which there can be no sound credit appraisal and, therefore, no sound credit structure

by R. A. COLLITON, Director, Credit Interchange Bureaus, N. A. C. M.

It is too early to appraise definitely the full results of our business difficulties of this year. But even now there is ample evidence that again we will profit by adversity. This profit will accrue in many ways. We know we will have a stronger banking system. That in itself will be a major economic improvement. But every indication points to a still greater gain—the creation of a better understanding of what constitutes credit, and how and on what basis credit must be treated.

Generally, we are all interested in credits on a broad scale; credits as they relate to governments, to our great industrial and financial structure, and all other forms of credit. But specifically we are interested in the credit problems of the wholesaler and manufacturer.

Bad credits have their origin in faulty credit appraisals. But faulty credit appraisals have their origin, not so much in faulty credit analysis, as in faulty credit information. It is not a matter of the credit executive being unable to analyze properly credit information; he has often not had the credit information essential to an accurate analysis.

If our troubles of the past few years do nothing more than drive home that fact, if they do nothing more than mark the end of our "giving" credit and the beginning of our "taking" credit—then all of our sacrifice and worry will have been a small price to pay for the progress we will have made. For when we cease "giving" and begin "taking" credit, we will set about getting the credit information without which there can be no sound credit appraisal and, therefore, no sound credit.

As the vast majority of people in business are honest, it follows that regardless of what methods we have pursued, or what credit information we have used —in fact, if we had no information at all—these honest, capable customers would still have met their bills according to agreement. And because the majority have paid their bills, and because we, therefore, have been able to maintain what we have accepted as a low percentage of credit loss, we have failed to recognize the shortcomings in present day credit information, and our failure has been due largely to a lack of understanding of the difference between "giving" and "taking" credit.

To illustrate this difference, let's take our well known customer, John Doe, analyze his affairs and our credit contacts with him. Let us say that John's financial statement of January 1st—the year is not important—showed quick assets \$10,000.00, current liabilities \$3,000.00; total assets \$30,000.00, total liabilities \$10,000.00. Now disregarding all question as to the accuracy of the figures in the statements, and assuming no adjustments or deductions of any kind are necessary, let us establish the amount of credit which, as we have said it, should be "given" John Doe.

In line with the thought of "giving" credit, we have assumed that when we "gave" John Doe credit we were doing him a favor, and the logical assumption was that the favor on our part should fortify his position. It is because of that assumption that the financial statement and its accompanying mummery of ratios has come to play such an important part in credit analysis. It is because we have been "giving" credit that rating books are still looked upon by some as dependable, although a rapidly increasing number of credit executives will thoroughly disagree. Of recent years, while the theory of "giving" credit has remained, appreciation of its fallacy has been evidenced in the desire on the part of credit executives to exchange information with one another. But because a part of the old thought remains, these exchanges have been incorrectly organized, and consequently only partially effective, and in the main have been looked upon as an activity secondary to the other information which formed the basis of "giving" credit.

In "giving" credit, the policy was to determine the amount of credit to which John Doe was entitled, and then for each creditor to act as though he was the only one "giving" John credit; and if any thought was given to the action of other creditors, that was dismissed as of minor importance because everyone "giving" him credit was doing John a favor, thus helping him and ourselves as well.

But, of course, we were not "giving" him credit; we were not doing him a favor. What we were actually doing was trading him our merchandise for his credit. We were "taking" credit from him.

And when we analyze it from that viewpoint, it immediately becomes plain that each and every one of our transactions with John automatically weakened his credit position. The difference between his assets and his liabilities—call it his credit or his capital, or what you will—is John's margin of safety, and ours as well. If a sufficient amount of John's credit, or capital, is taken away from him, and an equal amount of accounts payable is substituted therefor, it follows that John can no longer pay one hundred cents on the dollar on his indebtedness. There might be times of unusual prosperity when the value of assets steadily increased where this might not be the fact, but in normal or adverse times it is true.

Now, let us reverse our thought; go back to John's statement and determine the amount of credit John has to "give" us; in other words, the amount of John's credit we can safely "take". Let us assume that we "take" 25% of that credit from him in exchange for merchandise. And then let us suppose that nineteen other creditors do the same thing. What happens? Collectively, we creditors have "taken" five times as much credit as John had to "give". Where did this additional credit come from? Unless we gave our merchandise away, and received nothing in return, we have "taken" credit from someone for it. And, of course, the answer is simple. We merely "took" all of John's credit away from him, and then started "taking" away from one another the credit he had previously given us.

And then when we receive the notice that John Doe has failed, our claim is filed—John's assets are sold under forced liquidation, bringing less than their face value—and we receive 20 cents on a dollar. We charge the remainder to bad debts. And it is set down in the record that John Doe failed and caused us a loss because of lack of capital, lack of character, lack of capacity, or some other explanation, any of which is to be the accepted explanation of our own short-comings.

As to the 80% we do not get, why should we have expected it? On the face of the facts, we took that amount of credit, not from John, but from ourselves as creditors. Once we had taken all of John's credit, we merely began "swapping" that credit with one another for merchandise, and, somehow, we all expected one hundred cents on the dollar on our accounts. But that we could not get because collectively we had but $1.00 of John's credit for each $5.00 of merchandise we had "given" him—and in this case the "giving" is true.

Need anything more be said to prove the fallacy of "giving" credit? Need anything be added to definitely illustrate that a financial statement can never be the acid test of credit responsibility, and that a rating is of no value whatever? Is anything needed to prove that the essential basis of sound credit is in an exchange of information, not only between the customer and the creditor, but, more important, between the creditors collectively? Certainly it is obvious that the action of each creditor individually has a direct bearing and effect on the interests of all creditors. If we are to "take" credit from a customer until his credit is exhausted and we, as creditors, then hazard the risk of "taking" the customer's credit from one another, is it not logical that the important credit information to have is that which will continuously disclose the amount of credit "given" by the customer, not to one or a few creditors, but to all of them?

It has long been an axiom that there must be no competition in credit. Everyone agrees to that; but the competition has continued, nevertheless, and it has not been overcome because we have continued to think in terms of "giving" not "taking" credit. When all of us really begin "taking", then we will rapidly discover that the creditor who elects to work secretly and alone, and declines to disclose the facts covering his dealings with our customers, is a real menace to us. And we will also discover that the only real solution to our problem lies in the centralization of our ledger experience in one organization where it will be available to all. In fact, it is not too much to say that the time is not far distant when we may pay for credit service, not on the basis of the reports we receive, but for the opportunity of reporting our transactions with our customers to all other creditors. That is now and always will be the best protection to our accounts receivable.

Credit granting need not be a gamble. Eliminate the element of gambling by the use of Credit Interchange Bureau Reports.

But whether you view it from the point of present necessity or future possibility, there still remains the inescapable fact that the vital point of the whole matter is centralization; that there should be but one medium for the exchange of ledger experience information between creditors; that duplication of that medium inevitably means millions of dollars of unnecessary expense for credit information, other millions thrown away in unnecessary expense in credit departments, and an assured continuance of unnecessary losses mounting into hundreds of millions of dollars annually.

And need it be added that since this information is to be given by and used by credit executives, it is for them to own and control the machinery for its exchange; and that permitting control of that exchange to fall into the hands of private individuals where its policies, procedures, and costs would be dictated by them, would be equivalent to taking the control of credit departments away from the organizations of which they are a part?

In organizing Credit Interchange Bureaus and the National Credit Interchange Clearance System, your National Association of Credit Men established the medium through which this exchange of information is now being effected by thousands of credit departments. It can readily extend its service to cover all wholesale credit departments thus bringing all creditors together. The service you require and need in "taking" credit is now available to you. All that is needed is an expression from you of your desire to use it, and it is yours.

Current survey of credit conditions

by W. S. SWINGLE, director of the Foreign Department and the Foreign Credit Interchange Bureau of the National Association of Credit Men.

The 18th quarterly survey of credit and collection conditions in twenty-one Latin American markets covering the first quarter of 1933 indicates a slight reversal in the downward trend which was noticeable in the closing quarter of last year.

As in previous surveys, the information is compiled from the opinions of the members of the Foreign Credit Interchange Bureau of the National Association of Credit Men who are selling in these markets and the opinions of credit conditions within the various countries and also the returns on collections are used in compiling this information.

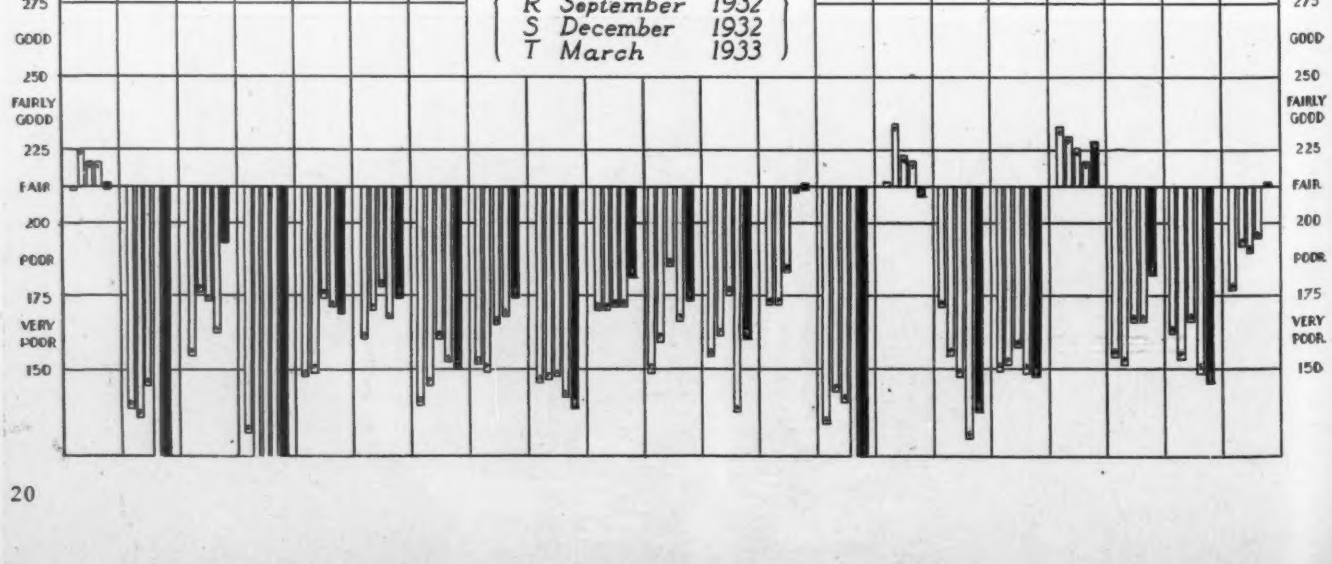
In regard to credit conditions within the various countries, the opinions of those contributing to the survey indicate that in 13 markets there had been an improvement, even though slight in some cases. This compares favorably with the results of the survey of the previous quarter, when a decline in the index of credit conditions was noted in 15 of these markets. This survey confirms the reports coming in from a number of these countries indicating that although import purchases are low and payments for imports into these markets are difficult on account of the exchange situation, nevertheless when looking at the country individually and considering only domestic transactions, general credit conditions have shown some improvement. It should be evident that an analysis of the credit situation in any individual market cannot be determined entirely by the import and export trade balance. While these seriously affect the exchange situation, and the payment on external debts also is an important factor, nevertheless with exchanges blocked and transfer difficult the payments within a country have been more satisfactory than might be expected, and the credit standing of the firm when considered locally has not been affected in proportion as indicated by their ability to buy exchange for exterior payments.

In considering the credit conditions within a country, the local resources and business undertaken in local currency is a factor which would determine this standing, while, of course, in surveying the whole picture the situation in regard to a country's foreign trade must be taken into consideration. Of course, to exporters of American products, in the final analysis the position of the country in foreign trade is of material importance, but in those countries where internal credit conditions are improving it is quite likely that over a period of time the solution will be found for exchange difficulties, and the local responsibility of the firm will in the long run be a determining factor.

In the survey for the first quarter of this year, as has been the case for the past year or more, none of the countries have a sufficiently high index figure to place them in the rating of Good. There has, however, been an improvement from the last quarter in the case of Puerto Rico sufficiently to bring this up to a classification of Fairly Good. Improvement is also indicated in such countries as Venezuela, Brazil, Salvador, Guatemala, Costa Rica, Dominican Republic and Honduras. In Mexico the upward trend has been continued.

In some of these cases, as already indicated, the improvement is more internal than in connection with export or import trade. In some cases while

Credit conditions in twenty-one Latin-American countries scaled on the basis of the credit condition index figures which express mathematically the combined opinions of individual reports on each country.



and collections in Latin-America

there has been some slight change in the index of credit conditions, this has not been sufficient to affect the general classification for that market. Most of the declines in the credit index have been of a moderate nature, but are applied to index figures which have been low in previous surveys, and therefore it cannot be expected that appreciable further reductions will occur.

This survey, as in previous cases, refers only to commercial credit conditions existing in these markets in the opinions of exporters doing business there, and does not reflect the opinion of governmental or municipal credit, or on the ability of any country to ultimately take care of its obligations when commercial and bonded indebtedness are considered together.

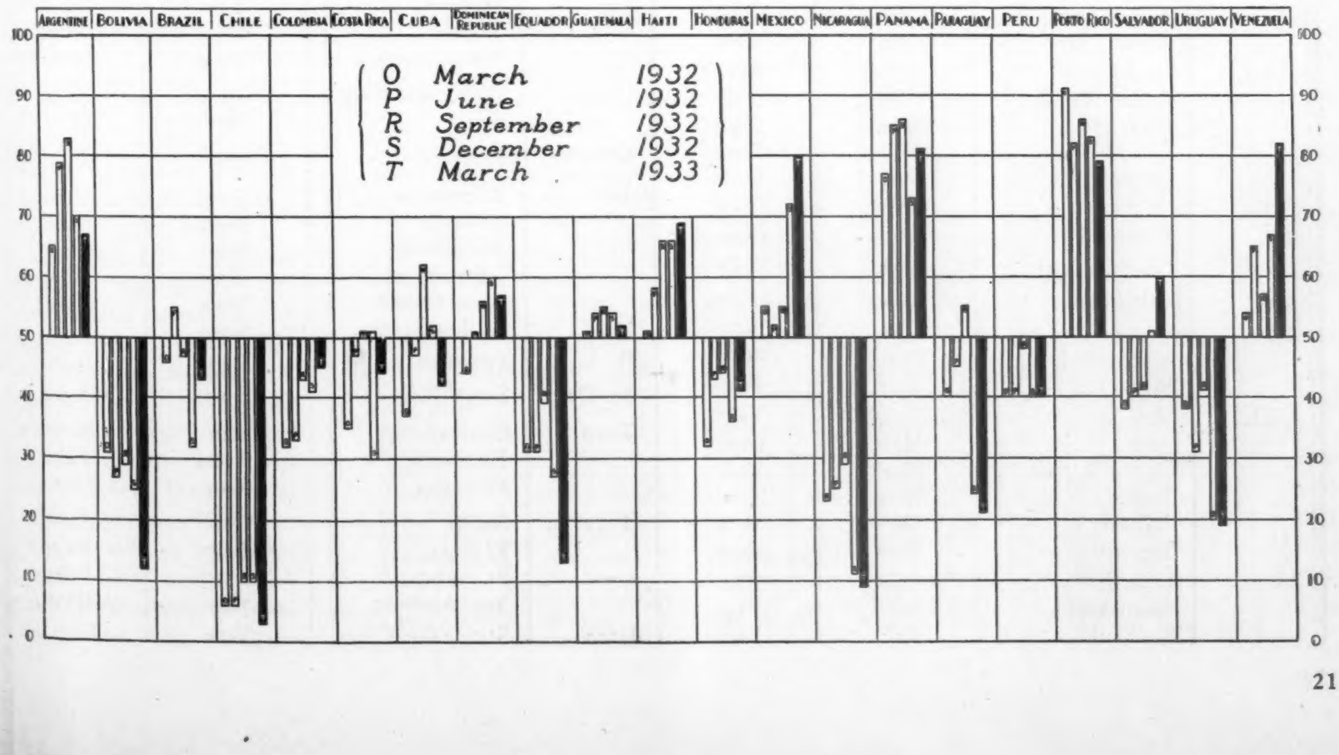
The exchange situation again is the governing factor as far as collections are concerned. Regulations and restrictions still continue, and while some transfers are being made, nevertheless there has been no real alleviation of exchange difficulties as far as transfer is concerned. Until exportable surplus at improved prices is available in most of these countries it cannot be expected that a change of any sufficient amount to materially improve the situation, will occur in Latin-America.

Current business is still being done with responsible houses in most of these countries, and payments are being taken care of. There has been but little improvement in bringing out the backed-up currency deposits. Further, in considering the question of collections, it should be borne in mind that payment in local currency to the legal discharge of the debtor is a technical satisfaction of the debt, and that the foreign buyer in making such payment has done his utmost to make payment, subject to governmental exchange restrictions, which are largely beyond his control.

The survey of collections indicates that nine countries have shown improvement during the first quarter as compared to the closing quarter of 1932, and declines have been noted in eleven countries. Collections still remain relatively better than the opinions on credit conditions would indicate. In general, the collection index figures show an improvement over the survey in the closing quarter of last year in which there were declines in the index for fifteen countries.

It is difficult at this time to reasonably forecast any immediate development in the exchange situation. Our own banking troubles within the first quarter of the year, the embargo on gold shipments which has been made effective by Presidential decree, the talk of inflation, the increasing difficulty of such countries as England in holding down the relative value of sterling, and the economic struggle going on between countries tied to the gold standard, against countries tied to other currencies, principally sterling, will make the situation difficult, but it would appear at the present writing that those forces which are most strongly at work would lead toward improvement in foreign currencies in comparison with the dollar, and provided some further drastic restrictions are not imposed should tend toward an easier situation for the buyer of our export merchandise who must in settlement convert local currency into dollars.

Collection conditions in twenty-one Latin-American countries at five different periods. The scale numbers are based on the percentage of reports of prompt collections for each country during each survey.



Nation-wide collection and sales conditions

What they are at present
The outlook for the near future

Credit and Financial Management offers its regular monthly survey of collections and sales conditions. It is based upon reports from the associations throughout the country affiliated with the N. A. C. M. The reports are the results of the daily experience of the leading wholesaling and manufacturing concerns operating from these trading centers. The two questions "Are people buying?" and "Are they paying?" are perhaps the most direct and immediate reflection of daily business conditions in the country.

These reports have been tabulated so that you may see at a glance how conditions are reported in various cities in each state, also what cities report a condition of "Good, Fair or Slow." At the end of this summary you will find valuable explanatory comments that have been sent in to Credit and Financial Management. These additional comments may be pertinent to your interpretation of collection conditions and sales conditions in the cities listed.

State	City	Collections	Sales
Ark.	Little Rock	Fair	Fair
Cal.	Los Angeles	Fair	Fair
	Oakland	Slow	Slow
	San Diego	Good	Good
Colo.	Denver	Slow	Slow
	Pueblo	Slow	Fair
Conn.	Bridgeport	Slow	Slow
	Hartford	Slow	Slow
	New Haven	Slow	Slow
	Waterbury	Slow	Slow
D. C.	Washington	Slow	Fair
Fla.	Jacksonville	Slow	Slow
	Tampa	Slow	Fair
Ga.	Atlanta	Fair	Fair
Idaho	Boise	Fair	Fair
Ill.	Peoria	Fair	Fair
	Springfield	Fair	Fair
Ind.	Evansville	Slow	Slow
	Ft. Wayne	Slow	Slow
	Indianapolis	Slow	Slow
	South Bend	Fair	Fair
	Terre Haute	Fair	Fair
Iowa	Burlington	Slow	Slow
	Cedar Rapids	Good	Fair
	Davenport	Slow	Slow
	Des Moines	Slow	Slow
	Ottumwa	Slow	Slow
	Waterloo	Slow	Fair
Ky.	Louisville	Fair	Fair
La.	New Orleans	Fair	Fair
Md.	Baltimore	Fair	Fair
Mass.	Boston	Slow	Fair
	Springfield	Good	Fair
	Worcester	Fair	Fair
Mich.	Detroit	Good	Fair
	Flint	Slow	Slow
	Grand Rapids	Slow	Slow
	Jackson	Slow	Slow
	Lansing	Slow	Slow
	Saginaw	Slow	Slow
Minn.	Duluth	Fair	Fair
	Minneapolis	Fair	Fair
	St. Paul	Fair	Fair
Mo.	Kansas City	Slow	Slow
	St. Joseph	Fair	Fair
	St. Louis	Fair	Fair
Mont.	Billings	Fair	Fair
	Great Falls	Slow	Slow
	Helena	Slow	Slow
Neb.	Omaha	Fair	Slow
N. J.	Newark	Fair	Fair
N. Y.	Albany	Slow	Fair
	Binghamton	Fair	Fair
	Buffalo	Fair	Fair
	Elmira	Slow	Fair
	Jamestown	Fair	Slow
	New York	Fair	Fair
	Rochester	Fair	Fair
	Syracuse	Fair	Fair
	Utica	Fair	Fair
N. C.	Charlotte	Fair	Fair
No. Dak	Grand Forks	Fair	Fair
Ohio	Cincinnati	Slow	Slow
	Columbus	Fair	Fair
	Dayton	Fair	Fair
	Toledo	Slow	Slow
	Youngstown	Slow	Slow
Okla.	Oklahoma City	Slow	Slow
	Tulsa	Slow	Slow
Oregon	Portland	Fair	Fair
Pa.	Allentown	Slow	Slow
	Altoona	Slow	Slow
	Harrisburg	Slow	Fair
	Johnstown	Slow	Slow
	New Castle	Slow	Slow
	Wilkes-Barre	Slow	Fair
R. I.	Providence	Slow	Fair
So. Dak.	Sioux Falls	Fair	Fair
Tenn.	Chattanooga	Slow	Slow
	Knoxville	Fair	Fair
	Memphis	Slow	Slow
Texas	Dallas	Slow	Slow
	El Paso	Fair	Fair
	Ft. Worth	Fair	Fair
	San Antonio	Slow	Slow
Utah	Salt Lake City	Slow	Fair

State	City	Collections	Sales	State	City	Collections	Sales
Va.	Bristol	Fair	Fair	W. Va.	Bluefield	Slow	Slow
	Lynchburg	Fair	Fair		Charleston	Slow	Slow
	Norfolk	Fair	Fair		Clarksburg	Slow	Slow
	Richmond	Fair	Fair		Wheeling	Fair	Slow
	Roanoke	Fair	Fair	Wis.	Fond du Lac	Slow	Slow
					Green Bay	Slow	Slow
Wash.	Bellingham	Slow	Slow		Milwaukee	Slow	Slow
	Seattle	Slow	Slow		Oshkosh	Slow	Slow
	Spokane	Slow	Slow	Terr. of			
	Tacoma	Fair	Fair	Hawaii	Honolulu	Slow	Slow

Nation-wide collection and sales comments

CALIFORNIA: Oakland reports the failure of one large bank to reopen has seriously affected conditions in that territory. Collections and sales in San Diego have improved considerably.

CONNECTICUT: There is very little money in circulation in Waterbury due to the decreased factory time. A few small concerns reported busy, but the larger plants have little to do. Seasonal sales are below normal caused by the unusually cold weather and inactivity of manufacturing concerns.

INDIANA: Terre Haute reports that business is much better and believes that the return of beer is responsible for this.

KENTUCKY: There has been an improvement in sales and collections in Louisville since the bank moratorium.

MASSACHUSETTS: Springfield reports the following: "A period of confidence has set in since the election — this from a hard-boiled Republican". Worcester informs us that the bank holiday resulted in Conservators for at least six banks in that territory. Despite the bank holiday and the subsequent closing of banks, orders are coming in nationally and the feeling amongst manufacturers is optimistic.

MICHIGAN: Detroit reports: "Considering the tremendous handicap of closed banks, people are really trying to pay. A tribute needs to be paid to the automobile industry whose courage and effort to stimulate business deserve applause. However, we are still in a depression." Conditions in Flint have been greatly retarded by the banking situation. However, there is a slight trend toward improvement. Jackson reports: "We had two banks prior to February 13th, the largest having 76% of the deposits has not opened yet and appears to be hopelessly sunk. Collections, sales and production are practically at a standstill.

MINNESOTA: A report received from Minneapolis states: "For the purpose of basing a report on collections and sales, we made inquiry among our representative group of business firms in this city. Ten out of fifteen of these inquiries report collections fair. Five firms report collections slow. The industries reporting collections fair are drugs, grocery, cigars, fuel, farm implements, wholesale, electric and flour milling. The five industries reporting collections slow are glass and paints, automobile accessories and heavy hardware paper, household specialties, beds and bedding. Seven out of fifteen report sales slow, seven report sales fair and one reports sales good. The industry reporting sales good is flour milling. The industries reporting sales fair are wholesale drugs, groceries, cigars, farm implements, manufacturing underwear. The firms reporting sales slow are glass, and paints, automobile accessories, household specialties, fuel, paper, electrical goods, beds and bedding. Barring seasonal changes, the situation is approximately the same as last month. A determinaiton to hang on is evidenced, indicating confidence in the future."

NEW YORK: People in Binghamton are reported as buying only their immediate requirements. Many who are inclined to order in volume are too hazardous a credit risk. In some sections collections are very slow. The banking holiday has been the excuse offered by those who can find no other explanation to offer. Several sections of New York have reported conditions good.

NORTH CAROLINA: Charlotte informs us that many sections are yet without banking facilities. The textile manufacturing industry has been fair with the furniture manufacturing slow. Payrolls are on reduced schedules.

OHIO: Conditions have improved slightly in Cincinnati and a much improved feeling prevails. Dayton reports: "Frigidaire and the National Cash Register Company have put 10,000 men to work full time. There seems to be a more optim-

(*Continued on page* 39)

Changes since last month's survey

State	City	Collections	Sales
California	San Diego	Fair to Good	Fair to Good
Colorado	Pueblo		Slow to Fair
Florida	Tampa		Slow to Fair
Illinois	Peoria	Slow to Fair	Slow to Fair
Indiana	South Bend	Slow to Fair	Slow to Fair
Iowa	Cedar Rapids		Good to Fair
Louisiana	New Orleans	Slow to Fair	Slow to Fair
Maryland	Baltimore	Slow to Fair	Slow to Fair
Massachusetts	Springfield	Slow to Good	Slow to Fair
	Worcester	Slow to Fair	Slow to Fair
Michigan	Flint		Fair to Slow
Minnesota	Duluth	Slow to Fair	Slow to Fair
	St. Paul	Slow to Fair	
Missouri	St. Joseph	Slow to Fair	
Montana	Great Falls		Fair to Slow
Nebraska	Omaha	Slow to Fair	
New Jersey	Newark	Slow to Fair	Slow to Fair
New York	Utica	Slow to Fair	Slow to Fair
North Carolina	Charlotte	Slow to Fair	
Ohio	Columbus	Slow to Fair	Slow to Fair
Oklahoma	Oklahoma City		Fair to Slow
Pennsylvania	Harrisburg		Slow to Fair
Rhode Island	Providence		Slow to Fair
Tennessee	Knoxville	Slow to Fair	
Texas	Ft. Worth	Good to Fair	Good to Fair
Utah	Salt Lake City		Slow to Fair
Virginia	Norfolk	Slow to Fair	Slow to Fair
	Roanoke	Slow to Fair	

"This month's collection letter"

by CHARLES F. KUDER, Schuylkill Valley Mills, Inc., Spring City, Pa.

Dear Sir:

An amusing anecdote is told about an incident in the life of Benvenuto Cellini, the celebrated 16th. century goldsmith and master of all trades.

It seems that Cellini, after months of painstaking labor upon a cunningly wrought gold vase which he had been commissioned to make for the Bishop of Salamanca, was unable to collect his fee. The Bishop took the attitude, "Try and get it". Exasperated and in need of funds Cellini called upon the lagging debtor one day and pointing his pistol at him exclaimed, "Pay or I shoot!" The Bishop paid and Cellini went on his way rejoicing.

This simple and direct method of collection has its parallel in business today. When every other amicable means of getting our money has been exhausted and the debtor, like the Bishop, simply refuses to pay, we say, "Pay or we'll shoot". And we mean it. Our "gun" is The Blank Collection Agency—and it never misses.

Don't force us to unlimber this weapon to collect your account. We don't like to shoot the darn thing off because it makes a big noise and somebody always gets hurt.

P. S. The amount of your overdue account is $125.36.

The collection letters presented each month in this department are not theoretical model letters. Each letter has been used successfully in actual practice and experience. Only those letters are selected which have brought unusually good returns to their users. By making a few changes in the phrasing of these letters you can adapt them to your own business with the same degree of success that they have brought others.

In order to write an intelligent collection letter, you must know the paying habits of each customer to whom you send a letter. The first prerequisite to successful collection procedure is a Credit Interchange report by the Credit Interchange Bureaus of the National Association of Credit Men. These reports tell you when to collect and how to collect. With Interchange reports before you on each of your accounts, you will attain maximum effectiveness in using the collection letters presented in this department every month.

Send us your best and favorite collection letter for our "collection of collection letters" which we are gathering for readers of CREDIT AND FINANCIAL MANAGEMENT.

A selected series of individual copies of the collection letters which have appeared in CREDIT AND FINANCIAL MANAGEMENT is available at cost. Apply to Miss Mary V. Larkin, Manager, Collection Letter Department, CREDIT AND FINANCIAL MANAGEMENT, One Park Avenue, New York.

Paging the new books

Reviews of the important books on business, to aid executives whose reading hours are limited.

This month's business book

PLANNED MONEY. By Basil P. Blackett. D. Appleton & Co., N. Y. $1.50.

It is the stated purpose of Mr. Blackett, in his "Planned Money", to make "constructive suggestions for a revision of our currency system as an *integral* part of a general program of reconstruction".

Management, he declares, should be left to the expert but the layman should decide policy after listening to the expert's presentation of the case. And Mr. Blackett qualifies as a high-ranking expert. He is today a Director of the Bank of England. As such, his espousal of planning and integration in our world and national economies is doubly worth hearing: for what is said and by whom it is said.

Planning is the trend of the day. Rising above, and at the same time underlying, all our whims and fancies and fads and movements, planning has made progress in a quiet, confident advance—the kind of advance that is hardest to stop. "Laissez-faire" is threatened—and seriously.

Mr. Blackett even declares that "this automatic self-regulating system was a myth and that the marvelous prosperity which the world enjoyed in the 75 years before 1914 was not due to the supposed merits of this system, but to a fortuitous combination of circumstances".

One aspect of planning—and very important as we recently learned!—is financial stability. With this subject our author deals chiefly, after some splendid, crystal-clear opening chapters on planning in general. Another aspect of planning is the place of the individual—individual freedom. Quoting Bernard Shaw, Mr. Blackett sees that the case for freedom is apt to be a case for slavery; or as the Irish wit has observed: "Mussolini understood that what was keeping the people slaves was their determination to be what they called free".

Economic planning does not endanger freedom of thought, of speech, of conscience, or free institutions. It promises stability in our economic life and with division of labor, as exact as it is today, who can say that having our economic nose-to-the-grindstone is less advantageous under one or the other system? Economic freedom is relative: the South Sea Islander has a different degree than the British Islander. Lack of freedom of choice to the consumer is incompatible and quite impossible. Russia has such a system, we hear, but reports are so full of conflict that it is hard to know exactly what's what.

Mal-distribution is one of our key problems. The part played by money in distribution is vast. Accordingly money planning and control of the price level in some way is an essential, it would seem.

To this subject of money planning Mr. Blackett brings his vast experience in exchange problems, budget directing and bank management. And such a tome at such a time from an officer of the traditionally conservative "Old Lady of Threadneedle Street" is indeed as welcome as it is stimulating. If such doctrine comes from the throne room, we are perhaps healthier than we seem in a fundamentally financial way. For Sir Basil sees the need of a monetary system controlled and stabilized by price and investment control. Gold, he sees, as a lost standard and his chapter on bimetallism or symmetallism is excellent exposition.

This volume should be required reading today, especially in view of the proximity of the World Economic Conference.

—M. E. Hare

Inflation A.B.C.

INFLATION by Donald B. Woodward and Marc A. Rose. McGraw Hill Book Company, New York. $1.50.

"Inflation", by the authors of "A Primer of Money", is a successful attempt to explain inflation in understandable and fundamental terms for the average person. This book certainly meets the prevalent need for a simple interpretation of the much discussed and much debated causes, effects and consequences of inflation.

The first chapter is entitled "A.B.C." and tells what the word "inflation", so loosely used by all of us, really means. From this starting point it describes what the various methods of inflation are, their virtues and defects, how inflation has worked in the past, why people propose inflation and how it affects every person and every business.

It takes us back to the days of the Roman empire and analyzes the causes and effects of inflation and deflation from that time down through the years to a recitation of the history of inflation in the United States. It discusses the gold standard as it affects inflation and tells what would happen if the gold content of our dollar were reduced. Briefly, the authors conclusions are that moderate inflation will have a salutary effect but that the process is fraught with grave and often uncontrollable dangers. If you really want to understand inflation, without getting lost in a labyrinth of economic terms and generalities, by all means read this book. It does the job!

—Chester H. Mc Call

Tariffs

EUROPE AND THE AMERICAN TARIFF. By O. Fred Boucke. Thos. Y. Crowell Co., N. Y. $1.50.

Today we are engaged in a great tariff war, testing whether this nation, or any nation, so depressed and so protected can long endure. We are about to see the convening of a World Economic Congress and much of its attention, as well as that of the initial meetings in Washington, D. C., will be concerned with tariffs. With the added interest in tariffs because of the Roosevelt administration's declared policy of reciprocal adjustments, Professor Boucke's analysis of Europe's and the United States' relations as to tariff regulations is an excellent handbook to present a background for coming events

—P. H.

"Meet me in Milwaukee!" Week of June 19th

BANKERS *and* POLICYHOLDERS

are scrutinizing Fire Insurance Companies' Statements so thoroughly that these Companies:—

The Commonwealth Ins. Co. of New York

The Mercantile Ins. Co. of America

The Homeland Insurance Co. of America

North British & Mercantile Ins. Co., Ltd.

and

The Pennsylvania Fire Insurance Company

have included the complete portfolio of their investments in their 1932 Financial Statements with Moody's rating of securities.

Your inspection is invited.

(Note attached coupon)

Commonwealth

Capital $1,000,000

Assets	$6,438,119,96
Liabilities (except Capital	2,865,282.33
Surplus to Policyholders	3,572,837.63

Bonds comprised 96% of all investments.

Mercantile

Capital $1,000,000

Assets	$6,319,494.80
Liabilities (except Capital)	2,859,554.69
Surplus to Policyholders	3,459,940.11

Bonds comprised 96% of all investments.

Homeland

Capital $1,000,000

Assets	$2,522,320.66
Liabilities (except Capital)	668,466.09
Surplus to Policyholders	1,853,854.57

Bonds comprised 75% of all investments.

North British

Assets	$14,635,208.51
Liabilities (excluding Statutory Deposit $400,000)	8,418,622.94
Surplus to Policyholders	6,216,585.57

Bonds comprised 92% of all investments.

Pennsylvania Fire

Capital $1,000,000

Assets	$14,521,153.03
Liabilities (except Capital)	7,841,443.31
Surplus to Policyholders	6.679.709.72

Bonds comprised 90% of all investments.

Advertising Dept.
(2nd. floor)
150 William St.,
New York City

☐ Commonwealth
☐ Mercantile
☐ Homeland
☐ N. B. & M.
☐ Pa. Fire

(Check those you desire)

Please send copies of your Financial Statements of December 31, 1932 to:

Name ....

Address ....

....

None of these Companies has borrowed nor needs to borrow any money.

Internal debt

(*Cont. from page* 11) it is easy for anyone to understand why our internal debt has become such a colossal burden."

"How does the country stand today in regard to short term indebtedness?" was the next question I asked.

"There has been a deflation in most forms of short term debts", Mr. Filene answered. "Our study shows that during 1932 short term cash loans declined half a billion dollars, open account debts dropped 700 million dollars and installment debts decreased at an approximate rate. However, life insurance policy loans have increased greatly though it may be debated as to whether this constitutes a debt increase rather than a decrease of savings. All short term personal and household debts, moreover, showed a net increase of about half a billion dollars. These debts are especially significant in the current debt structure because the stability and health of our social life depend upon the solvency of each family unit."

After Mr. Filene had completed this summary of the status of our internal debt I asked him to give me some of his ideas on how we are to correct this situation and avoid a repetition of this debt debacle in the future. His answer follows:

"Our debt structure, by its very nature is inelastic. I have pointed out that we contracted debts bearing an unchanging rate of interest upon the assumption that values and income would continue to increase with the years. When this failed to materialize we found ourselves with a vast and rigid structure of indebtedness imposed upon a foundation of national wealth and income which has shrunk drastically during the past few years. We might as well admit the fact that no widespread relief of our debt burden can be attained until our wealth and income once more begin to increase or the debts themselves are scaled down adequately. Many of the measures that are being proposed by the present administration are well adapted to bring relief but the debts that remain will have to be paid sometime. The immediate problem is to relieve present distress and burdens and make it possible for business to function hereafter without an impossible debt burden.

"One of the first tasks facing us is to balance our national budget. By that I do not mean our Federal government budget alone but the budgets of our states and municipalities as well. If we continue to spend more than we bring in our national, state and municipal governments are going to pile up an increasing bonded indebtedness. Taxes are going to increase and more money will be diverted from our reservoir of purchasing power. Our national budget is only in theoretical balance unless it provides each year for the amortization of a proper proportion of our bonded indebtedness.

"I brought out some of the underlying mistakes that have brought trouble to our railroads. Railroads cannot continue to fund their debts as they come due and expect to work themselves out of trouble. I don't believe that mergers alone will be of much help to our carriers. They must scale down their overhead all along the line until with better management income reaches a point in excess of outgo. Supposing better management would enable the roads to decrease their rates. Our national transportation cost would be reduced and more money would be available to reinforce our buying power and help to build back business for the railroads as well as for the rest of us.

"From a broad viewpoint our debt problem is definitely linked with the whole problem of business recovery. If debt payments have to be made with our national income at such a low level it will simply retard business progress. But as our conditions improve and national income increases a large proportion of it must be released for current business activities that will stimulate further economic expansion. The one thing we must not do is to take on additional long term indebtedness and increase our already too burdensome debt load. We must have more "pay as we go" courage and less long term financing that will bring obligations due long after they have served their economic purpose.

"The best of our nation's leaders must turn their minds to this acute problem. We can work our way out. We can manage our national finances as they should be managed and not mortgage our future on such assumptions as we did during the decade following the war. We need the right men to lead us out. *Don't forget that a second class principle working in a first class mind is better than a first class principle working in a second class mind.* First class minds on the job is our great need."

Index of economic reports

Business men who are searching for facts and ideas to be applied to making their operations more effective will find the key to a wealth of factual information on business methods in a new *Index of Economic Reports*, just published by the Policyholders Service Bureau of the Metropolitan Life Insurance Company. Listed in this publication are the titles of over 500 reports and articles on problems of business management that have been published and made available for distribution by the Bureau.

Practically the entire range of business management is represented by the studies catalogued in the *Index*—advertising, selling and merchandising; credit and collections; budgeting; accounting and finance; purchasing; production management and engineering; personnel management; business research; and industrial health and safety. Preliminary sections of the booklet describe the nature and scope of these economic surveys, and the bases on which they were prepared.

Illustrative of the wide range of interest represented by the material listed in the booklet are the titles of a few representative reports. These include *The Manufacturing Expense Budget, Effective Credit Management, Selling by Employees, Methods of Organizing and Conducting Industrial Safety Contests, Improving Dealer Accounting Practices, Radio as an Advertising Medium, Air Conditions and the Comfort of Workers, Training Driver Salesmen, and Employee Suggesting Systems.*

The reports, which taken as a whole may be of possible interest to executives in a wide variety of business enterprises, are the result of investigations conducted by the Policyholders Service Bureau. A bird's-eye view of the Bureau is given in the introduction to the *Index*, which states that its efforts are devoted to the cause of better management in business, and in the interest of the economic health or well-being of the insurance company's 26,000,000 policyholders. The Bureau's staff is made up of specialists trained and experienced in the different fields of management.

Copies of the Index of Economic Reports may be obtained by writing to CREDIT AND FINANCIAL MANAGEMENT, 1 Park Ave., N. Y., attention: Miss M. V. Larkin.

"Meet me in Milwaukee!"
Week of June 19th

Credit ceiling

(*Continued from page* 13) attempt to force its circulation. This possibility would, of course, defeat the adequate application of the protective devices just discussed.

In preceding paragraphs we have discussed some of the devices designed to protect the granting of credit so as to insure the return of approximate equivalence of purchasing power. This protection will prevent depletion of assets of the business entity only when the price policy followed is one of selling on the basis of replacement costs rather than historical costs. To make this clear. Assume that stock on the merchant's shelves cost him $6.00 per unit. Adding his customary 25 per cent. mark-up he would price it at $8.00 per unit and probably turn the stock at the end of three months. If at that time the cost price of the merchandise has advanced to $8.00 he can, with the proceeds of the sale, replace his stock but has no real profit and has lost his operating expenses. This despite the fact that his books would continue to show a gross profit of $2.00. To both replace his stock and make an actual gross profit equivalent to the desired mark-up he should price on the basis of replacement costs. Replacement cost at the time of sale of $8.00, plus the 25 per cent. markup would give a selling price of $10.67. The sale at this price would give him a return sufficient to restock his inventory and still have the desired margin to cover operating expenses and leave a profit. The adherence to this policy requires, in addition to an understanding of the theory of replacement costs and market demand strong enough to accept the higher prices, the adoption of a system of bookkeeping designed to put the books on this basis. The books of account must not only show historical, or past costs, but must also record present market values. This requires the adjustment of the book values by some index of inflation and makes an accounting problem too complex to permit of adequate discussion here and to which we can merely refer as another problem of inflation.

In return for these efforts at protection and the securing of adequate prices the credit man under inflation will, it is to be acknowledged, benefit due to the greater ease with which existing debts may be collected. But if having collected the money due his firm he finds that his collections are not sufficient in value to restore the assets he is duty bound to protect he has lost. This is a loss just as real and just as damaging to the firm as the loss which comes from the charging off of bad debts as a result of composition or bankruptcy. In addition it is not a selective process. The good account deteriorates as does the poor account, whereas under the selective method of composition and receivership only those debtors who are unable to continue to meet their obligations are relieved from the necessity of payment and then only for a portion of the debt.

So far we have been considering the question very largely from the point of view of credit men interested in the protection of their individual firms. Proponents of inflation would reply to this discussion in somewhat the following vein. True, inflation has some problems and it may as well be admitted it has some evils. But inflation is the only way out of the problem of continued deflation. The evils of continued deflation are unthinkable. The burden of present debts is so heavy that the debtors cannot hope to pay their debts. Continued deflation will mean a succession of bankruptcies and receiverships which is an unthinkable catastrophe. Inflation, on the other hand, will relieve the burden of debt. It will prove a stimulus to business, it will check the continuance of the depression and lead to recovery, with the consequent reemployment of men and resumption of profitable business operations. This argument supports inflation in the same fashion a step-child is praised. The proposal is the lesser of two evils. The first, continued deflation, is dismissed without analysis because it is too terrible to contemplate; the second, inflation, need not submit to an examination of its evils because of the manifold alleged benefits. This is the reasoning of a proponent, but not of the searcher for truth.

The arguments of those supporting inflation as the lesser of two evils also overlook or ignore the long range future prospects. Inflation as a remedy would probably provide a temporary stimulus to business. It would, temporarily at any rate, relieve the burden of debt. In the attempt to hedge loans made during inflation and to replace depleted working capital lost due to failure to price on the basis of replacement costs additional debts would be created which would continue to increase and so again become burdensome so that the relief from debt would be only temporary. Most important is that inflation would avoid the completion of certain painful adjustments which are still to be made and which are just now becoming susceptible to adjustment. Namely, further reduction of (*Continued on p.* 32)

Milwaukee convention

(*Continued from page* 14)

Wednesday afternoon—Excursion on the lake and trolley car ride to White Fish Bay where supper will be served immediately.

Thursday afternoon—Visit of inspection to the large factories of the city.

Thursday evening — Smoker and vaudeville entertainment.

With the current popular interest in the return of beer it is interesting to note that of four invitations extended to the Association members at the time of the 1900 convention, and printed in the convention program, two of them came from brewing companies: the makers of Schlitz and of Pabst beers being the cordial hosts of the Association's delegates.

Notes About Credit Matters

Information on bakery industry is published

A bulletin entitled "General Information on the Bakery Industry," has just been published in mimeographed form by the Bureau of Foreign and Domestic Commerce. This ten-page pamphlet summarizes the available statistics on production, cost of production, consumption and prices of bakery products, and gives references to the available sources of information on each phase of this industry.

Commercial bakeries, with 183,000 wage earners and manufactured products valued at $1,189,228,490 in 1931, are the largest employers of labor, from the standpoint of number employed directly in the manufacture of a single line of foodstuffs.

In addition to data on production, by years and by kinds of products, there is also presented in this information bulletin summary data on cost of production, prices, exports and imports, consumption, problems arising in the merchandising of these products, the problem of the return of stale bread, organizations and periodicals devoted to the bakery industry, and a selected list of publications containing material of interest on the industry. Copies of the bulletin may be obtained for 10 cents from the Foodstuffs Division, Bureau of Foreign and Domestic Commerce, Washington, D. C.

Wholesale trade in paints and varnishes analyzed

Wholesale distribution of paints and varnishes, including data on manufacturing and the channels through which paint moves to the consumer is analyzed in the third special trade study from the Census of Wholesale Distribution, just issued. This study, as did the two previous studies covering radio equipment and motion picture films, presents a descriptive analysis of the trade covered, with a discussion of volume of production, channels of distribution, types of commodities sold, location of the trade, operating expenses of wholesale in the field, and sales territories.

The paint and varnish industry, as classified by the Census Bureau, produced goods valued at $348,855,000 in 1931. Manufacturers sold 41.3 per cent of this to industrial consumers, 14.1 per cent to their own wholesale branches, 18.4 per cent to retailers, 22.7 per cent to wholesalers, 1.9 per cent to their own retail stores, and 1.6 per cent to home or ultimate consumers. This report analyzes the sales through the wholesale units.

The total sales of paints and varnishes by wholesale organizations operating in all lines of trade in 1929 amounted to $337,452,000. Of this amount $245,642,333 was sold by wholesale establishments classified in the paint and varnish trade, and $91,809,667 through other lines of trade. Wholesale establishments in this trade also sold $57,994,821 worth of other commodities, making total sales of all commodities by wholesalers in this trade of $303,637,154. This business is analyzed in the report.

Approximately 88 per cent of all the sales of these wholesalers were made on a credit basis. Practically 60 per cent of the agents and brokers extended credit accommodations to their customers, which, according to the report, is quite contrary to current conception. There were 74 out of the 327 reporting manufacturers' sales branches that sold paint direct to home consumers to the extent of 10.6 per cent of their net sales, while wholesale merchants followed this practice to a somewhat greater extent—267 of the 565 reporting wholesalers making such sales to the extent of 13.7 per cent of their net sales. These data show the report, states, that retailing on the part of paint and varnish wholesalers is a general practice and that sales made in this manner are an important part of the business of those engaged in the performance of the dual functions.

This report, "Wholesale Trade in Paints and Varnishes," is available for 5 cents from the "Superintendent of Documents," Washington, D. C. Other special trade studies in the wholesale field are planned for the drug industry, hardware, electrical goods, and probably two or three others.

Credit careers

Curtis R. Burnett

It is rather unfortunate, but true in America, that when men reach the 60 year mark they are not so active in the several organizations in which they were interested when younger.

Curtis R. Burnett, who was president of the National Association of Credit Men in 1921, is an exception, and in Newark, N. J., where Mr. Burnett has always lived, it is the usual thing to hear men remark, when his name is mentioned, that it is an inspiration to see how Curtis R. Burnett is so actively engaged in the several organizations in which he is interested. Those who are intimate with him also wonder how a man who is so busy with so many projects always appears calm and collected.

His business career has been almost entirely connected with the oil business and, in 1895, he was one of the founders of the American Oil & Supply Co., Newark, N. J., and, at the present time, he is Vice-President and Treasurer of that concern.

As president of the New Jersey Association of Credit Men, as president of the Chamber of Commerce of the City of Newark, N. J., and as president of the National Association of Credit Men, he was active in legislation of interest to those organizations and even today, he is active in the legislative work of those bodies.

It has been said that a man may well be judged by the organizations in which he is active and it is, therefore, fitting to list the organizations in which Mr. Burnett is now active:

"Meet me in Milwaukee!" Week of June 19th

He is a past President and is on the Advisory Board of the New Jersey Association of Credit Men, and of the National Association of Credit Men. He is a Director of the National Newark & Essex Banking Co., which is the oldest national bank in the State. He is President of the Robert Treat Council of Boy Scouts of Newark. He is President of the Presbyterian Hospital, one of the largest hospitals in New Jersey. He is a Vice-President, representing New Jersey in the National Association of Manufacturers. He is a past President of the Down Town Club and a member of the Essex Club of Newark. He is a member of the Chemist Club of New York City, a member of the Board of Trustees of the North Jersey Employers Association, and a member of the Board of Trustees of the Forest Hill Presbyterian Church, a former Director of the New Jersey State Chamber of Commerce and former President of the Ironbound Manufacturers Association of Newark.

Although Mr. Burnett has been actively connected with many organizations, it is noteworthy that he has served the New Jersey Association of Credit Men, and the National Association of Credit Men for more than 25 years, and has for a continuous period of about 19 years served as a director, president or member of the Advisory Board of the National Association of Credit Men.

"On to Washington"

A. L. Birch, formerly in charge of the N. A. C. M.'s Sales Department and Editor of the Credit Manual of Commercial Laws, has been transferred to the Washington Association of Credit Men, where he has succeeded to the Secretaryship of the Washington, D. C., Association. The announcement was made in March by Executive Manager Henry H. Heimann. Mr. Birch had been with the National organization staff for the past four years.

L. A. C. M. A. council on bank reform

The ever-alert Credit Economics Council of the Los Angeles C. M. A. formulated a platform for banking reform recently with these points:

1. Audits of character of personnel as well as of financial condition.

2. Divorce of commercial and investment banking.

3. Reduce number of banks to prevent competition.

4. Bring commercial banks into "close working unity as members of the Federal Reserve System as most desirable in building a banking structure that will stand all strain."

5. Permit branch banking within reasonable limits and with proper control within all states.

6. Educate depositors—banks and depositors must recognize their mutual obligations.

Herman Uehlinger

Herman Uehlinger, president, manager and a director of the Egan & Hausman Company, Inc., Long Island City, died of heart disease recently at his home in Brooklyn, N. Y. He was fifty-two years old. A native of Buchthalen, Switzerland, he came to this country with his parents in his childhood.

Mr. Uehlinger was formerly chairman of the business service committee of the National Association of Credit Men, vice-president of the New York Credit Men's Association and a member of the industrial relations committee of the Brooklyn Chamber of Commerce.

Applause

A salvo of applause, please, for B. D. Judkins, Manager of the Credit and Collection Department of the Indianapolis *News*. After reading the monthly business bulletin of Executive Manager, Henry H. Heimann, in April, he called a portion of it to the attention of his newspapers' editorial writers. On April 10th a fine editorial appeared in the *News* which condemned, as did Mr. Heimann in his bulletin, the hoarding of accounts payable. The editorial was reprinted by a large number of other dailies. Here follow some lines from the editorial:

"Hoarding accounts payable is condemned in the *Monthly Business Review of the National Association of Credit Men* as one reason for some of the current business stagnation. The man who doesn't pay his bills when he has the money is, of course, hoarding the money. But he is doing more than reserve to himself a supply of cash. He is invading the rights of others. The money is not, in fact, his. It belongs to his creditors. To withhold it from them is to deprive some of them of their business vitality. They pass on the trouble, with the result that the succession of adverse effects is extended and intensified. The importance of prompt payment of bills when possible is stressed by the Association as follows:

"One of the most constructive things that everyone could do at the moment would be to pay each and every bill that it is possible to discharge and to pay it with a check. If we began a policy of settling all around, it would start in circulation a volume of credit which would insure to the benefit of industries and would speed up recovery. There has been in recent months due to the banking situation a hoarding of accounts payable. This is short-sighted and has the effect of further closing the streams of credit and stagnating industry and commerce. No single factor at this particular time could prove more helpful than a nation-wide program of paying our bills and of using checks to discharge these obligations."

Conventions

The N. A. C. M. has for many years, through its Foreign Department, participated in foreign trade affairs. One example of the Association's participation in foreign affairs is indicated by the part it took in the 20th National Foreign Trade Convention, which was held in Pittsburgh on April 26, 27 and 28. Mr. Henry H. Heimann, Executive Manager, delivered one of the feature addresses of the convention entitled "Gold-For Trade or Treasure". Mr. W. S. Swingle, Director of the Association's Foreign Department, participated in the Latin-American Group Session, of which General Palmer E. Pierce was Chairman.

On Friday, April 28th, a group session on "Current Credit and Collection Practices" was held in co-operation with the Association. The session chairman was Mr. P. M. Haight, Treasurer, International General Electric Company, an outstanding member of the Association and one of the leading forces in developing the Association's Foreign Department. The feature talk of this session, entitled "Today's Credit Problems" was given by Mr. W. T. Moran, Assistant Vice-President of the National City Bank of New York. Mr. Moran is a member of the Supervisory Committee of the Foreign Credit Interchange Bureau.

And on May 4 at the U. S. Chamber of Commerce meeting in Washington, D. C., Mr. Heimann and Vice-President Ernest I. Kilcup participated; Mr. Kilcup being a round-table speaker on "Debtor-Creditor Relations" with the special subject of "Insolvency Problems of Manufacturer, Wholesaler and Retailer."

Credit ceiling

(*Cont. from page 29*) wages, and further deflation of the prices of certain products, so as to bring about price equilibrium and proportionality between specific prices in the general price structure.

It would not avoid the necessity of ultimately making these correctives. The economic organization is one of delicate balance and adjustment. The maintainance of this balance and adjustment is a matter of the prices of specific goods and services. Depression is a condition of lack of adjustment and the recovery from depression is only possible when the adjustments have been completed. It is during prosperity that certain maladjustments are permitted to occur which because of the general upward stimulus are not immediately corrected and are thus permitted to widen and deepen until the loss of balance is so aggravated that the accumulation in various lines causes the general collapse known as depression. Artificial prosperity, as engendered by inflation, while the fundamental adjustments are not completed, results in a raising of the general level of prices without any selective process of correction. Thus it defers but does not avoid the eventual corrective. Meanwhile the stimulus causes the existence of other maladjustments to be ignored until at the time when the first stimulus, or even repeated dosages of the stimulus, cease to be effective. Then the same painful process must be repeated and adjustments once painfully completed must be gone through once more.

At the present time we are suffering from the effects of credit inflation carried forward on a gold basis. Prominent among the causes of the current depression is the war and post-war inflation of prices and growth of excessive speculation. This was made possible by excess gold reserves and over use of credit facilities. We are only now making the adjustments necessary to restore the equilibrium lost during this period. Our business men are now for the first time since 1929 facing facts and approaching their problems with the will and determination to solve them themselves rather than looking to government aid or a miracle of divine providence to restore the mirages of '29. This facing of facts and working forward from realities has been already too long deferred and delayed by unsound refusal to accept losses. Inflation represents another refusal to face the issue.

Throughout the troubles and difficulties which accompany and follow inflation there is added the additional disturbance of uncertainty. The proponents of certain forms of inflation urge that they do not consider carrying inflation to such ridiculous extremes as are furnished by the examples of Germany, Russia, or Austria but only to a modified and carefully controlled extent. Despite this assurance, once action is taken in the direction of a desertion of the historical gold stability of the dollar, there is no guarantee to what extent the departure may go. The present demand for inflation comes chiefly from three groups in the population; the debtors, farmers, and silver mining interests. Of these three groups it is easy to see that their selfish interests explain their advocacy of these measures. The debtor hopes to be relieved of his just debts by passing the loss due to depreciation of the monetary standard on to the creditor. The farmer hopes to be benefited by the rising prices of his products, and to a large extent he also hopes to gain from his position as a debtor. The silver mining interests hope to see the remonetization of silver with a consequent increase in the demand for silver. Although they advance claims as speakers for the general interest their desire for personal advantage is clearly evident. As additional groups and classes may see an apparent selfish advantage in continued inflation the departure from a fixed standard will make it easier for them to gain their ends. The measure having been first adopted because of selfish self-interest cannot hope to rise above the level of its source. Historically one dose of inflation creates its own appetite for more and there is no stopping point short of complete collapse. To assume otherwise is to credit our people with more self restraint and reasoned balance and our legislators with more independence and intelligence than past events indicate either is entitled to.

The proponents of inflation hope to correct certain injustices caused by the falling of prices by suddenly raising prices; thus trying to make two wrongs equal one right. Granting the contention that the debtor who borrowed money when the general price level was considerably above the present level is forced today to repay in terms of more real commodities than he borrowed, this does not avoid the fact that the obligations at present outstanding have changed hands several times since the original loan was made. Thus the attempt to save debtors from the consequences of falling prices by a sudden raising of prices will injure other individuals who did not gain by the terms of the contract and were not parties to the original agreement. It must also be remembered that at present obligations are being continually contracted on the basis of present prices and the raising of prices as a result of inflation will affect these obligations as well as those contracted in the past.

With these considerations, which have been sketched rather than developed, the credit man of today, looking toward the possibility of currency inflation, may well eye it askance.

Meanwhile, the continuing threat present in the continued advocacy and possibility of adoption of inflationary measures acts as a destroyer of confidence. Business men charged with the responsibility of lending funds are naturally cautious about making commitments. Continued argument and debate on the question will, if the possibility of adoption seems imminent, lead to a further depreciation of the foreign exchanges. As foreign creditors seek to call funds outstanding in our money market back to the haven of a more stable money and as our own citizens protect themselves from the effects of inflation by moving investments from the American markets to markets in countries having what may be regarded as a more stable and certain monetary unit there will be pressure on the exchanges causing the dollar to depreciate. Gold payments being suspended and the gold standard temporarily abandoned there will be no check to this depreciation offered by the automatic operation of the gold standard. This drain of capital will further restrict the credit

available to our business interests and delay the recovery which would otherwise be in process of formation.

It would also strengthen the demand for inflation due to the existence of an apparent shortage of circulating media and conceal the true shortage; namely, confidence in the existing media. This combination might thrust us into the morass of inflation whether we will or not.

This possibility can be definitely checked and recovery hastened by the courage of the statesman who will definitely put a quietus to the continuing threat of monetary instability.

Inflation's shadow

(*Cont. from page 9*) the old basis has become impossible because the turnover of credit is too great for the reserves held. This is another reflection of the danger of the situation already outlined. Finally, the influence of inflation on the bank is usually a curtailment in profits. The bank's profits are dependent upon rapid repetition of the lending and discounting processes. In proportion as it approaches the position of a money lending enterprise, it makes its advances once and for all, and merely draws the interest thereon; and thus tends to reach a point at which it is unprofitable.

The second series of results produced by inflation is even more striking in influence. These are the effects upon the public and they begin with the volume of loans made by the banks. We have just seen that inflation tends to reduce the lending capacity of the bank. As such capacity falls off, there is a corresponding falling off in the borrowing power of the community; or to put this in another way, the community loses in its power to get accommodation from the bank. Inflation, thus, lessens the actual total of bank credit that can be used by the community. This is in opposition to the generally accepted view of the case, which is based on the superficial effects of inflation. The observer who sees great quantities of new deposits being written up on the books of the bank or great quantities of notes being printed, tends to identify abundance and laxity of credit with inflation. The view is one which can be sustained only over very short periods, and is due to the fact that the bank is admitting as the basis for credit many types of advance which it ordinarily would not consider at all.

Since such action limits the period of its activity, the conclusion must be that increase of credit due to inflation is a short-period phenomenon. The credit forms are brought into existence and tend to remain outstanding because there is no process of curtailment through liquidation of bank assets; but the power of the bank to go on creating new credit forms has been destroyed or impaired. Thus, "in the long run", which need not necessarily be very long, the effect of inflation is to cut down the credit activity or credit reserve of the community. The customers of the bank, in short, find themselves accordingly curtailed in their access to credit and are eventually cut off.

Bank inflation has a third series of consequences, which are reflected upon the community at large and distinct from the bank borrower. The rapid creation of new forms of credit—deposits and notes—is ordinarily relied upon by advocates of inflation to bring about an advance of prices in securities and goods. The question whether it will do so or not depends entirely upon the disposition of the community to use these credit forms in buying. If there be no such disposition, the inflation probably exerts little general influence upon the public at large. If there be such a disposition, inflation may result in a short sharp advance of prices, followed by a corresponding recession as the source of inflation becomes exhausted and as the inflating power is reduced. The effect, then, of inflation in this case is to bring about a more sharply fluctuating curve of prices. In the long run there is no reason to suppose that the general level of prices can be permanently raised by inflation, except in those cases in which inflation results in the transfer of the standard of value to another basis; for example—irredeemable paper.

It is now possible again to analyze the reflex effect of inflation upon the public treasury, as seen in the sequence of influences produced by it upon the public. This influence upon the affairs of the treasury is found in the irregularity and unsettlement which it imparts to prevailing conditions.

The characteristic reflex of inflation the treasury for the time being, by bringing about higher valuations, higher money incomes and higher levels of quotations generally, in those cases is to enlarge the basis of payments to where inflation has (*Continued on page 38*)

Answers to credit questions

Conducted by Walter C. Foster

The National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest are printed regularly in Credit and Financial Management. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principle of law involved.

Conditional sales contracts in Porto Rico

Q. Do statutes such as apply in the various states of the Union relative to the subject of conditional sales contracts exist in Porto Rico?

A. Laws of 1916 No. 61, Porto Rico, provides that persons may sell movable goods and chattels under conditional sales contracts, but that such reservation of title shall be void as against subsequent purchasers, mortgagees and pledgees, in good faith, or other third parties, unless the contract or a copy thereof be filed in the municipality where the conditional vendor resides, if he resides in Porto Rico, and if not, in the municipality where the property is located at the time of the execution of the contract.

The provision of the statute are in general the same as those with which we are familiar in this country, including a provision that the goods may be retaken by the seller on breach of condition, and in such case, shall be retained for a period of thirty (30) days during which time the purchaser may comply with the terms of the contract and receive the property.

If the purchaser does not comply with the terms of the contract within such period, the seller may cause the articles to be sold at public auction. Unless they are sold within thirty (30) days after expiration of such period, the purchaser may recover of the seller the amount paid for such articles, under the contract of conditional sale, less a reasonable charge for the use of the articles for the time they were in the possession of the purchaser.

An Internal Revenue Stamp of 50c must be paid for each entry of record, unless the value of the goods is less than $20.00 in which case a stamp of 25c shall be attached.

Statute of limitations

Q. On an open account, does the limitation start from the last payment that has been made on such account?

A. The Statute of Limitations starts to run on an open account from the date of maturity of the account. If a payment is thereafter made, the statute begins to run again from the date of payment. The reason for this is that payment is an acknowledgment of the indebtedness. The Statute of Limitations is based upon the theory that an account is presumed to have been paid within six years from maturity. Any written evidence to the contrary, such as payment on account, or written acknowledgment of the debt tolls the statute, and the term commences to run again from the date of admission of liability.

The business thermometer

(*Cont. from p. 7*) would be issued only on the backing of securities that were easily and quickly converted into cash. In general, this comprises notes, drafts and bills of exchange. These are what the non-banker would call promissory notes given by one business firm to another. Usually such notes become payable in not more than 90 days and are thus known as short term investments. Commercial banks often acquire them at a discount, at slightly less than their maturity value. When offered by a member bank as collateral for a loan from a Reserve bank, these securities are said to be re-discounted.

RE-DISCOUNT RATE: Rate of interest charged the member bank when it borrows from the Federal Reserve bank. Each Reserve bank fixes its own re-discount rate and generally these differ for the several Reserve districts.

NATIONAL BANK NOTES: Each national bank may issue or create money by depositing with the U. S. Treasury U. S. Government securities of certain issues equal to the sum of the notes it wants to put out plus a fund of 5% which the Treasury holds to redeem any notes that may be presented for payment. The government prints these notes but at the expense of the issuing bank. The notes may not be greater than the par value of the bank's capital stock. Such notes in circulation totaled $836,397,506 on January 31st.

MONEY IN CIRCULATION: This term includes all money of all kinds, including gold, in the hands of the public and the commercial banks. It does not include money held in the Federal Reserve banks or in the U. S. Treasury. On January 31st, the money in circulation totaled $5,644,618,924. The Federal Reserve banks and agents held $2,015,319,614. In the Treasury was $2,034,186,738. This made the total stock of currency in use $9,694,125,276.

GOLD CERTIFICATES: Issued by the U. S. Treasury itself to afford convenience to persons desiring to make gold transactions without being burdened by the actual metal. Gold certificates are paper promises of the U. S. Government to pay actual gold coins on demand of the bearer. For each note issued, gold coin or bullion is impounded dollar for dollar in the Treasury's vaults and cannot be used while its corresponding certificate is outstanding. On January 31st the amount of such gold thus tied up was $1,321,924,289. The outstanding certificates were held by the Federal Reserve banks in the sum of $730,604,210. The remainder, $591,320,079 of such certificates, were in circulation, i.e. in the hands of the public and the commercial banks. The redemption of these certificates in gold coin has now been temporarily suspended by Presidential proclamation. The public and the commercial banks have been called to turn them in and receive other forms of money in place of gold.

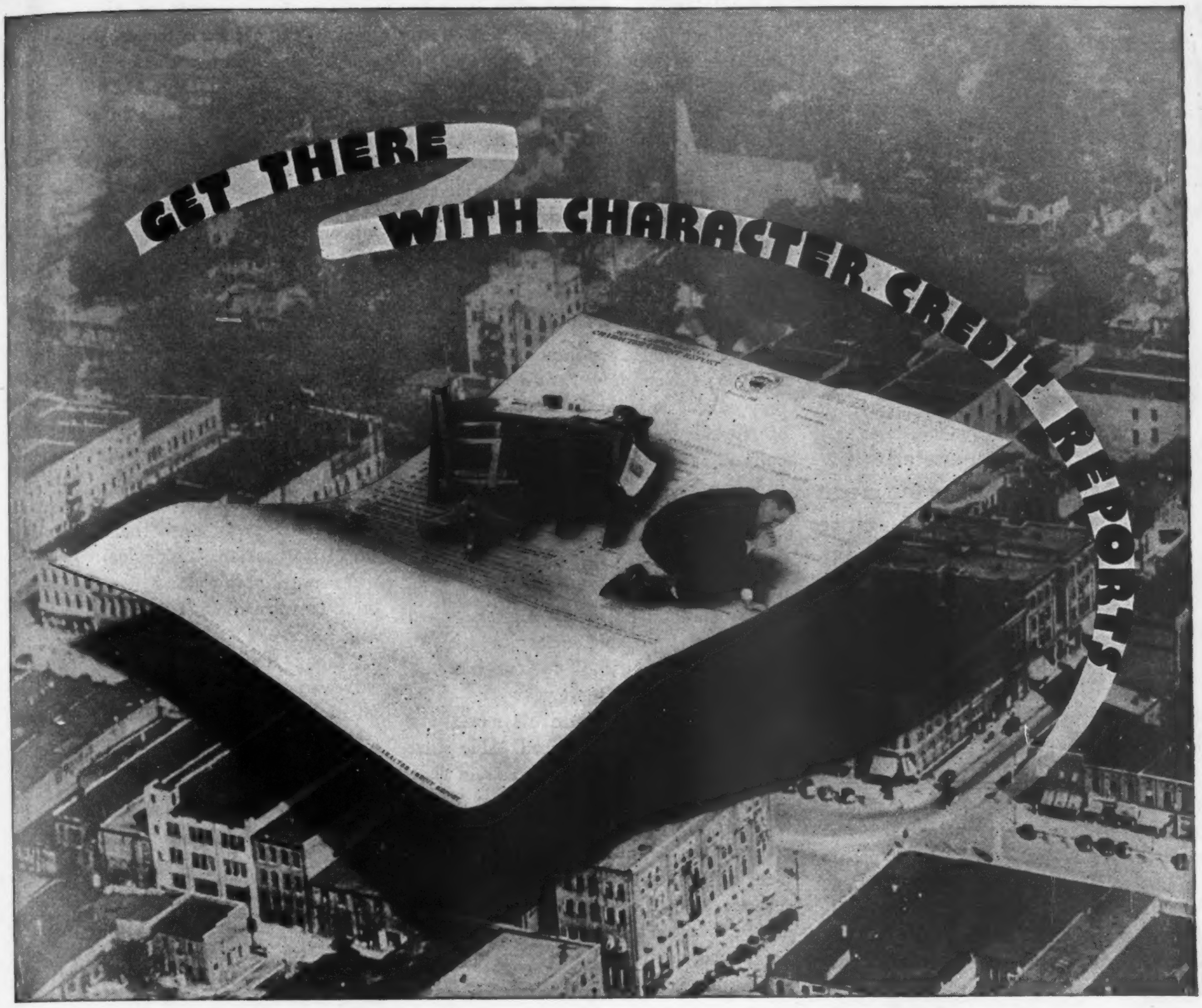
FIAT MONEY: Paper currency arbitrarily thrust into circulation by a government generally embarrassed for lack of revenue. Not secured by gold or specie. Called printing press money because frequently it can not be redeemed.

GOLD STANDARD: A system intended to prevent fluctuation in the value of money. Under the system, all money is valued in terms of a given quantity of gold. U. S. law fixes this quantity as 23.22 grains of gold. It calls that quantity of gold ONE DOLLAR. All forms of money thus remain fixed in value, including coins made of silver, nickle and copper no matter what changes may occur in the value of these other metals. A nation is said to be *defending* the gold *standard* when it stands ready on demand to redeem its money at this ratio and to buy and sell gold at that rate without restriction.

GOLD BULLION STANDARD: This standard is defended by a country which fixes a minimum quantity below which it will not buy and sell gold or redeem its currency. Generally this minimum amount is the value of a gold "pig", uncoined metal. A pig is worth about $8,000. The device is intended to prevent the circulation of small gold coins which might be hoarded but does not prevent the free exchange of gold between countries, since international gold shipments are generally made in quantities many times larger than a single pig.

CLEARING HOUSE: An association of banks in a single locality like a city to facilitate the exchange of checks drawn on one another and to enforce rules for the conduct of local bank operations designed to insure careful and safe banking.

"Meet me in Milwaukee!" Week of June 19th



If, with the aid of some magic carpet, you could personally investigate every individual or small firm that applies to you for credit, what would you ask about? Wouldn't you inquire closely into the character of the man or men? Reputation? Honesty? Record of fair dealing? Wouldn't you ascertain something about habits and morals as well as the facts about worth, income, and credit record?

You can get there with Retail Credit Company Service, and Retail Credit Company Character Credit Reports. In every city and hamlet in North America, there are men waiting to make just such inquiries for you. They know the information that you would obtain for yourself. They know where to get it quickly. They go out to get it only after receipt of your request in order that their findings may be right down to date. They present these findings to you in a concise report written to cover the transaction you are considering. With these reports, you have the same advantage in passing credit that you would have if you were personally acquainted with the persons you consider.

Not Magic. Just an extensive organization providing an efficient service that functions economically for thousands of credit men.

Write us about your credit information problems and we will tell you frankly what we think we can do for you.

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Insurance digest

Inaugurated because of the credit fraternity's close contact with the insurance field and need of information about it.

Proof of loss decision

The West Virginia rule that failure to file proofs of loss under a fire policy within 60 days after a fire does not void the policy and that filing of proofs of loss is merely a condition precedent to an action on the policy has been followed by the United States Circuit Court of Appeals for the Fourth Circuit in a series of companion cases involving an interpretation of the West Virginia statutory policy forms. The court likewise held that the adoption of the New York standard policy as the statutory form for West Virginia did not repeal by implication the West Virginia valued policy law of 1899, *The Eastern Underwriter* reports.

The fire occurred on April 9, 1931, but continued to burn in the basement of the building for a week or more after it began, the court said. Proofs of loss were not filed until June 13, 1931. Although not deciding the cases on this point, the court stated its agreement with the plaintiff's contention that the 60-day period for filing proofs of loss would not begin to run until the fire had sufficiently abated to allow a full inspection of the property for the purpose of determining the extent of the loss. While Federal courts are not bound by state decisions in matters of general insurance law, the court said: "When the Legislature of a State prescribes the language which a policy must contain, judicial interpretation of that language is in effect judicial interpretation of the statute itself and becomes a part of the statute." Accordingly, the court followed the decision of the West Virginia Supreme Court in the case of Raleigh Hardware Co. v. Williams, 144 S. E. 879, holding that failure to furnish proof of loss within 60 days merely limits and does not bar action.

Group insurance rights

An employe has no vested rights in a group insurance policy paid for entirely by the employer, and the employer may cancel at will, the Louisiana Court of Appeals has held in Austin v. Metropolitan Life, 142 So. 337.

When a company which has a group policy on its employes strikes off the name of an employe who is ill and stops paying premiums for him, the policy no longer covers that employe, the North Dakota Supreme Court has held in Magee v. Equitable Society, 244 N.W. 518. Magee was laid off for two months, then worked again for two weeks, after which he became ill and his name was again taken off the payroll. He died four months later. The court said that the non-liability was not because Magee was not in the employer's employ, but because the requirements of the policy were not performed for him. The insurance company was not obligated to notify Magee that his name was no longer certified and that no further premiums were paid for him.

Surrender not effective

Consent of the court or referee in bankruptcy is necessary to the surrender by the trustee in bankruptcy of a business life insurance policy, it has been held by the United States Court of Appeals for the Fifth Circuit in Lincoln National Life et al v. Scales, trustee according to *The Eastern Underwriter*.

When the policy was surrendered to the Lincoln National, it asked that in addition to the policy a court order be sent. No such order was sent by the referee, and the insured was killed less than two weeks later. The company claimed that the order was not absolutely necessary to the surrender, and that the policy was no longer in force. The court ruled, however, that the order was necessary before the policy could be considered surrendered.

The court further held that the privilege given under section 70(5) of the bankruptcy law to redeem life insurance policies by payment of the cash surrender value to the trustee applies only to the bankrupt and not to one who may have assigned a policy to the bankrupt. Being a business insurance policy, it had been assigned to the furniture corporation.

"Control" for automobilists

With the approach of spring, and the greatly increased automobile traffic on the highways, the John Hancock Mutual Life Insurance Company is again fostering highway safety and has begun the distribution of thousands of copies of its booklet, "Control" covering rules for safe driving and avoiding accidents.

"Good driving," it reads, "does not mean the kind of cleverness that enables one to slip away unscathed from hairbreadth situations. Nor does good driving mean moping along at a snail's pace on a clear road with a parade of honking followers.

"Good driving is smooth, efficient, safe—an art that can be cultivated by all of us. In fact the whole secret of good driving may be summed up in that one short word, "Control."

Gross margin ratio needed to break even shown

The relationship between average size of order and the gross margin ratio needed to break even on an order is shown for a group of confectionery manufacturers in a recent report of the Bureau of Foreign and Domestic Commerce entitled "Meeting the Small Order Problem in the Confectionery Industry". For example, the report shows that for this group an item with an average order size of \$2.00 requires a gross margin of 40 per cent to break even or to offset the distribution expense on the order. Where the gross margin is 25 per cent of sales, the average sale must exceed \$4.65 to show a profit, it was found.

Try, try again

Once when Ted Ray was playing an amateur opponent, he was left at one hole with a putt of eighteen inches, and rather expected the other to concede it.

"Surely you don't want me to hole that!" he said.

"No! I don't!" retorted the amateur, "But you just have a try all the same."

—*Canadian Credit Men's Journal*

"Meet me in Milwaukee!" Week of June 19th

Court decisions

TRADE ACCEPTANCE. PAYMENT BY ONE PARTNER. RIGHT TO CONTRIBUTION. BANKRUPTCY AS DEFENSE. (OHIO). The parties were partners engaged in the drug business and were indebted to the Ideal Laboratories Company on a trade acceptance which had been assigned to the Davenport Morris Plan Bank, which instituted action against the partnership. Judgment was entered against both parties, which judgment was paid by Wilkins, who later instituted the present action against Walton to enforce contribution against his former partner. The theory of Wilkins is that inasmuch as Walton did not set up his discharge in bankruptcy in the action of the Davenport Morris Plan Bank against the partnership he can not be heard to assert it now against his former partner.

Held that Wilkins was put upon notice, that as Walton was bankrupt and he, Wilkins, was a joint maker on the trade acceptance, he would in all probability be called upon to pay some part or all of Walton's obligation on the claim. He had such an interest as would prompt him to protect his liability on this claim insofar as it could be worked out in the bankruptcy proceedings. If this claim of Wilkins was contemplated in the schedule of the bankrupt, it is included in the bankrupt's discharge, whether the creditor proves it or not. Wilkins had a provable claim against Walton in his bankruptcy proceedings; failing to make such proof it was barred by the discharge of the bankrupt and as it is pleaded in the instant action it is a bar to recovery. Judgment for Walton. *Walton v. Wilkins.* Ohio Ct. of Appeals, Franklin County. Decided March 21, 1933.

VOLUNTARY. ASSIGNMENT OF ACCOUNTS RECEIVABLE. RETENTION OF DOMINION BY PLEDGOR. EFFECT AS TO THIRD PARTIES. PREFERENCES BY BANKRUPT. (WASH.) Satisfied by its investigation of Seiple's moral and financial standing, the Fales company entered into a written agreement April 24, 1930, with two Seiple corporations, to advance and lend to the two Seiple corporations not to exceed one hundred thousand dollars. To secure all amounts so advanced by the Fales company, the Seiple corporations made the assignment of all of the accounts receivable "accruing during the life of this loan". As amended in September, 1930, the assignment applied to "accounts receivable". O. H. Seiple, president and manager of the two Seiple corporations, named as the third party in the agreement, was appointed as agent of the Fales company to collect all accounts receivable and to apply the proceeds according to an agreement. Including the original loan of fifty thousand dollars, the Fales company advanced to the two corporations, from time to time, up to and including October 3, 1930, a total of one hundred and fifty thousand dollars. In June, 1930, the total advances by the Fales company to the two Seiple corporations aggregated one hundred thousand dollars. To secure the last advances, amounting to fifty thousand dollars, O. H. Seiple and wife executed, in June, July and October, 1930, three deeds, which were not placed of record, conveying real property to the Fales company. The two corporations punctually paid the monthly interest on the loans until the loan was called by the Fales company in December. Debtors of the two corporations were informed of the assignment. On December 1, 1930, the assets of the two corporations aggregated $156,560.12. The liabilities of the two corporations amounted to $384,425.80. On December 27, 1930, the Fales company commenced an action against the two Seiples and against the two Seiple corporations—during the pendency of the action a receiver was appointed for the two corporations and was made a party defendant—to recover one hundred and fifty thousand dollars. On January 17, 1931, O. H. Seiple and wife, and on March 31, 1931, the two Seiple corporations, filed voluntary petitions in bankruptcy.

Held that the assignment was invalid as to the rights of third parties, inasmuch as there was no surrender by the assignor of dominion and control of the subject matter of the assignment, and assumption of dominion and control of that subject matter by the assignee. The receivables were not to be collected by the assignee. The receivables were to be collected by the president and manager of the two corporations, as agent of the assignee. This was nothing more or less than a collection by the pledgor corporations. The assignee had the right to require—with this condition the corporations complied out of the moneys collected, payment of the interest accruing monthly on the loans. The contract provided that, so long as the accounts receivable were ten per cent in excess of the amount due the pledgee, the money collected by the corporations' president was to be turned over to the corporations for use in the business of the two corporations if "no demand has been made by first party (assignee) for payment of amounts due". Other than stated above, there was no provision requiring the corporations to account in any way to the assignee. The contract provided that the assignee should have the right to inspect the books and records of the corporations at any time. There is no evidence that the assignee ever availed itself of that provision. There is no evidence that the accounts receivable were in any manner so marked in the ledgers as to indicate they were assigned. It is further contended that assignee's taking of the proceeds of the accounts receivable constitutes a voidable preference under the Federal bankruptcy act. The date of taking control and dominion of the subject matter of the assignment is the only one to be considered, that being the date of the perfecting (if it was ever perfected) of the assignment. The assignee took its security at a time when its debtors were insolvent, and within four months before the filing of the petitions in bankruptcy. It follows that the assignee can not be permitted to retain accounts collected subsequent to December 2, 1930. So far as the agreement of April 24, 1930, is concerned, that date is not controlling. The assignment became effective, if ever, December 2, 1930. At that time, it may be that the assignee did not know the assignors were insolvent. But it had had every reason to believe that, when it took charge of the corporations in December, 1930, those corporations were insolvent. It will not be permitted to close its eyes to facts which were sufficient to put an ordinarily prudent man upon inquiry. Judgment against trustee in bankruptcy reversed, with directions. *J. W. Fales Company v. O. H. Seiple Company et al.* Wash. Supreme Ct. Decided February 14, 1933.

Inflation's shadow

(*Cont. from page* 33) become a concomitant of higher prices. This is the same conclusion that has already been reached through the analysis of the problem from the other side—that of the treasury, itself. Of course, as a subsequent influence of this change, it is necessary to observe the corresponding shrinkage of yield which takes place when prices sink back after reaching an inflated level or when business is brought to a standstill through inability to maintain its access to credit. This may be summed up in a sentence by saying that, the first reflex effect of inflation is that of causing irregularity in public receipts subjecting them to sharp upward and downward movements.

With this general view of the case, however, should also be associated the influence produced by inflation upon treasury expenditures. As prices increase they, of course, cause increased cost to the government. As wages increase, they tend to necessitate higher salary payments. Thus, in a word, the tendency of inflation is to enlarge government expenditures without correspondingly increasing the goods and services received by the government. The after-effects of this situation are usually perceived in the immobility of government salaries and the difficulty of reducing government costs during a period of deflation.

As the public enters upon a period of inflation, a primary element in it is likely to be the irregular advance of prices of goods and for services, if and when conditions are such as to permit such advances to take place at all. This irregularity means that some persons obtain a larger control over the goods and services of others than they hold in periods of declining prices. On the whole, so called necessities tend to rise faster in price than so-called luxuries. The effect is to reduce the surplus earnings of the community by reducing the saving power of the lower-income members of the community. The outcome is to lessen the yield of all those taxes that depend upon very widespread public consumption. As inflation comes to a climax and is succeeded by panic or crisis, such disparities of income reach their worst phase. Excise taxes and taxes on general consumption are at their best when incomes are well adjusted to one another, and when the rank and file of wage earners have the chance, generally, to earn real wages

All this may be summarized by saying that inflation tends to cut down those types of public revenue which are dependent upon the existence of a substantial surplus of real wages. Reflexly, this may be an extremely important element in budget-making.

What has been said up to this point is obviously theoretical and based upon general reasoning. To support it, one needs to make careful statistical analysis, and particularly to apply the working of the theories already outlined in particular cases. For this purpose a history of American public finance during the past decade offers a singularly rich field of inquiry. Some brief reference to these outstanding lessons is therefore worth while. The period in question, from the price standpoint, is broken into three sub-periods corresponding to changes in the price trend. During the first of these, which ran roughly, from about 1925-6 prices tended to rise, reacting after the sharp depression which followed the panic of 1920-1. In the second period, relative stability with slightly declining price levels was the rule, and this period lasted until the beginning of 1929. During the four years since 1929, we have had a sharply, though sporadically descending level of prices, which has taken us back in many cases close to the figures of 1913. The characteristics of government revenues during the first of these three periods coincide closely with those that were witnesses in every pre-inflation period. Government revenue rose rapidly and a large surplus was established. The advance of prices, however, tended to slow down the yields of those phases of government revenues which came from widely diffused consumption taxes. Thus, the tariff reached its maximum early in the decade and never again approached it except in so far as increases were produced by fresh legislation. During the second period, with credit inflation in full tide prices were either stable or slightly falling, and the yield of revenues temporarily or little altered, while banks were becoming less and less able to lend and business was being transferred from them to the stock market where most of the principal industrial plants were obtaining their supplies of funds. Steady reduction of income taxes followed leading down to the present low levels and deficit.

A sketch of the situation thus affords convincing evidence in a concrete way of the effects of inflation, in so far as it relates to actual government financing at the current time. Not only is inflation of any type, whether "controlled" or not, most injurious to the immediate yield of taxation but it produces reflex effects which work against soundness and current yields of amounts adequate to sustain the burden of government at the levels established during the preceding period of so-called "prosperity". That has been the experience of our own government;—it has likewise been the parallel experience of every other government in the world as well.

Inflation tends to dry up the sources of both tax revenue and of borrowing for government account. It also operates to check the development of business; and thus destroys the basis of taxation for the future. The disposition to urge it as a policy of governmental management, or to temporize with it as a necessary or unavoidable evil, or to apply it as a remedy for bad business conditions merely reveals an ignorance of its working in the past and an erroneous conception of its theoretical basis in finance and banking theory.

This is the material as originally presented by the author before the National Conference of Law and Business, sponsored by New York University.

Collection, sales survey

(Continued from page 23)

istic feeling, and the retail business reports an upswing in business."

PENNSYLVANIA: The four major banks in Johnstown are operating on a restrictive basis. If it were not for the financial situation they are inclined to believe that conditions have improved. Retail sales have increased due to seasonal demand.

TEXAS: Collections in Ft. Worth have slowed up somewhat during the past few weeks, but they still remain as good or better than could ordinarily be expected. The Easter sales with retailers were fairly good. Some few wholesalers and jobbers report slight increases over last month, while one or two report quite an increase over the same period of 1932. As a whole, it is believed that sales are slightly over the same period for 1932.

A lot of fellows who complain about their boss being dumb would be out of jobs if the boss were any smarter.

WILLIAM FEATHER.